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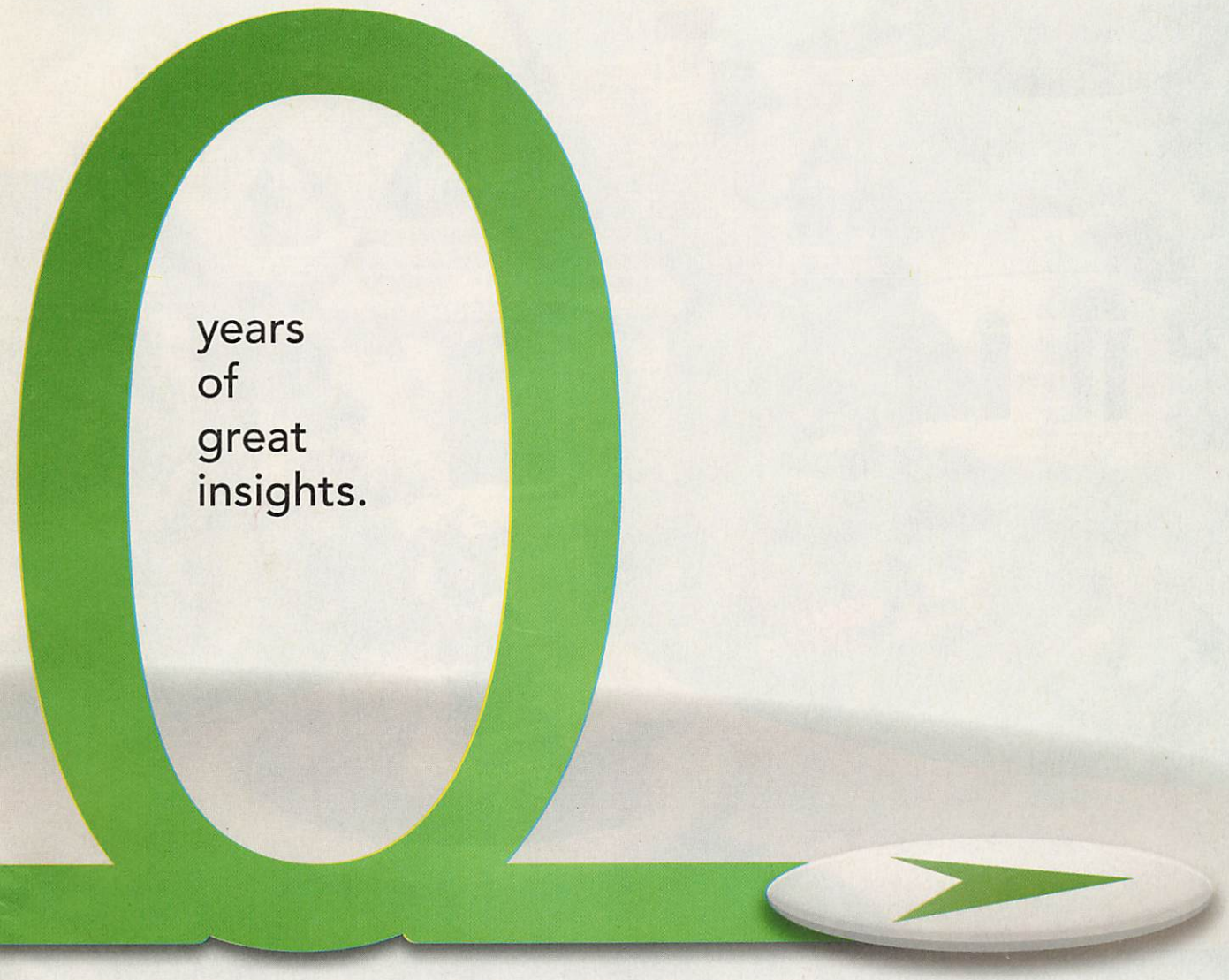

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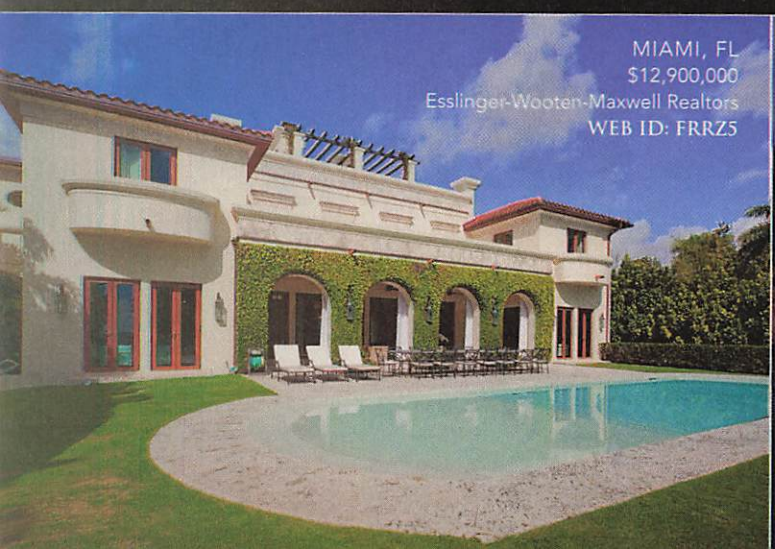

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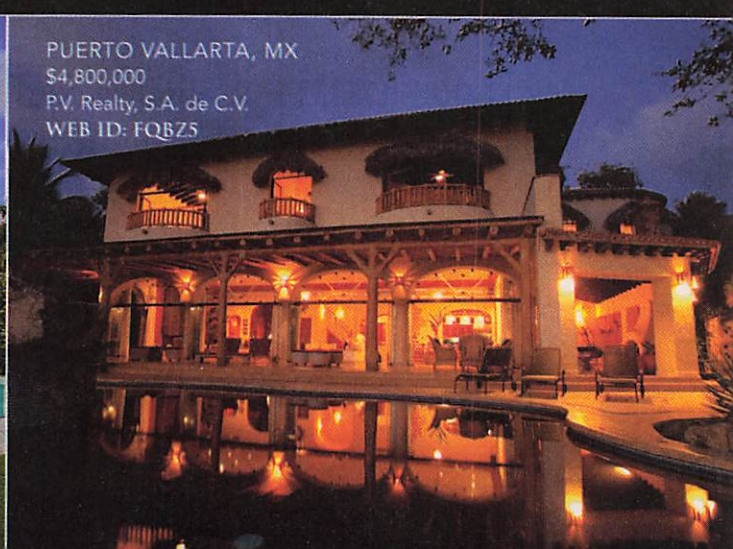

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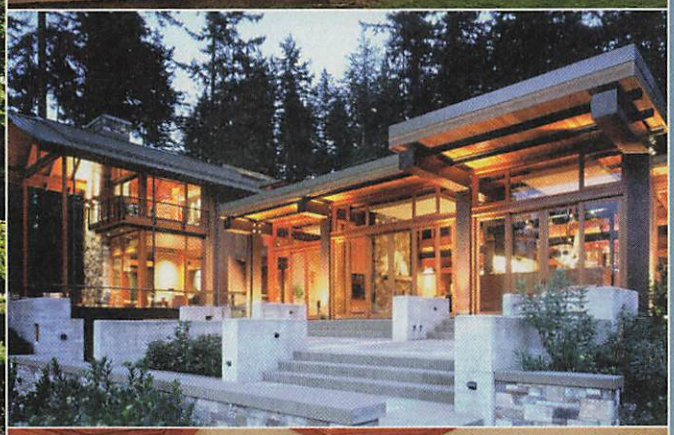

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September 2012
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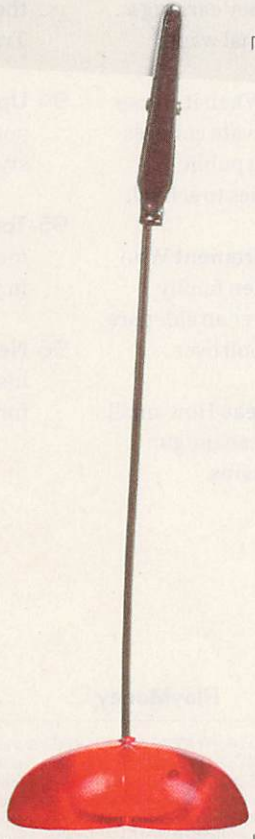

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When our first issue hit newsstands in 1992, the Dow was under 3500 and a "smartphone" had a cord running from the kitchen to the den. We've come a long way: Here, eight lessons we've learned.

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Regrets, we've had a few. But then, SMARTMONEY has made some surprisingly timely calls over the years as well. A brief accounting of what we've gotten right—and wrong.

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Saying Goodbye

JONATHAN DAHL
Editor in Chief
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WE'VE BEEN PREACHING for a long time that the world of investing, saving and spending—your world—has changed a ton. The value of your home, your long-term retirement plans, even the company medical plan—they are all in flux and will be for years. Now, there's one more change to deal with: SMARTMONEY is going all-digital, with this being the last print issue of the magazine.

It is, of course, taking one step into the future. With markets shifting so quickly and so much of personal finance changing, it makes sense to offer that news as fast as possible. But something is always lost when progress marches forward, and with this issue, one of the most hardworking and talented groups of journalists in the business will wave a collective goodbye. This group, and all SMARTMONEY staffers who preceded them, helped reshape the way personal finance is covered, treating the topic with a new level of in-depth reporting and storytelling that will be hard to match. Their dedication to readers was impressive to watch, whether it was pinning down a Wall Street bigwig with a tough question or exposing a flaw in a multibillion-dollar investing strategy.

Thankfully, some of those bylines will soon reappear in SmartMoney.com, while a few will join our great parent publication, *The Wall Street Journal*. As for myself, whatever I end up doing, I know I'll be peeking in on the digital operation, watching it grow and expand as it pushes its staff and its readers to be as smart with their money as our name demands. Our message and our mission will go on: Whatever eulogies we, and others, may write for this magazine, there's no need for an obituary.

April 1992
Inaugural issue

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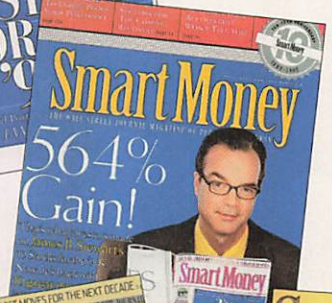

April 2012
20th anniversary

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THE POWER OF GOLD
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OUR NIGHT BOARDING AT A HARD-UP MANSION

April 2002
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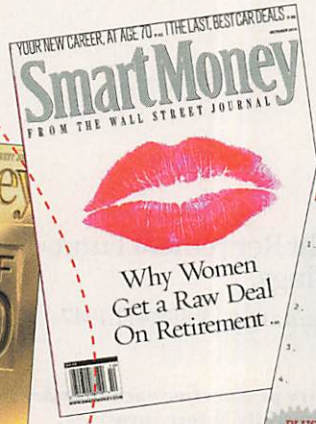
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Feedback

Letters, Tweets and Blog Posts From Our Readers

Who's Watching the Watchdogs?

After reading your wonderful article about mutual fund boards of directors ("It's Not Our Job," July), I couldn't help but think of Gen. George S. Patton's quote: "If everyone is thinking alike, then somebody isn't thinking." Anyway, I never invest my own money in funds of any type and never will for reasons you mentioned. Great story.

—Brian Garrison
Omaha

Provocative article. Every fund investor should expect his manager to regularly review and question the quality of corporate governance for all major holdings. The time has passed for favoritism and misrepresentation of stockholders by corporate board members. Perhaps such practices explain why Main Street has become hostile toward Wall Street and why we are seeing record outflows from stock mutual funds.

—Posted by spazzz
JULY 2

I have helped assemble many fund boards in the past 25 years. The individuals who serve give a great deal of their time, experience, judgment and business acumen for what is not a great deal of money. Articles such as these paint with a very broad brush by drawing upon anecdotes of high-profile fund companies and highly paid boards. But there is an enormous number of products to choose from, and shareholders can vote with their feet.

—Posted by John Pileggi
JUNE 17

A Good Dose of Skepticism

Good piece on digital medical records ("A Risky Rx for Your Records," July). I think it's a necessary evil. But you missed a critical problem: I recently had a doctor ask me about some heart medications that I'd never heard of. Turned out, someone else's data was entered into my record.

—Nick Markwardt
Las Vegas

The Fetching Life

I loved your July article "Pack Mentality." People don't realize to what lengths some will go for their pets. What seems perfectly reasonable to some may seem outrageous to others. I deal with dog weddings, bark mitzvahs, birthday parties, happy hours—you name an event, and if a dog can wangle an invitation, he's there.

—Jenny Brown
Seattle

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10 Things They Won't Tell You

Every industry has its secrets, and each week we reveal 10 of them, pulling back the curtains on a business, profession or institution that has a vested interest in keeping you in the dark.

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INVESTING

Stock Screen

In his weekly column, veteran writer Jack Hough searches out investment opportunities across markets, including in areas less traveled by Main Street investors, such as small-cap stocks and emerging markets.

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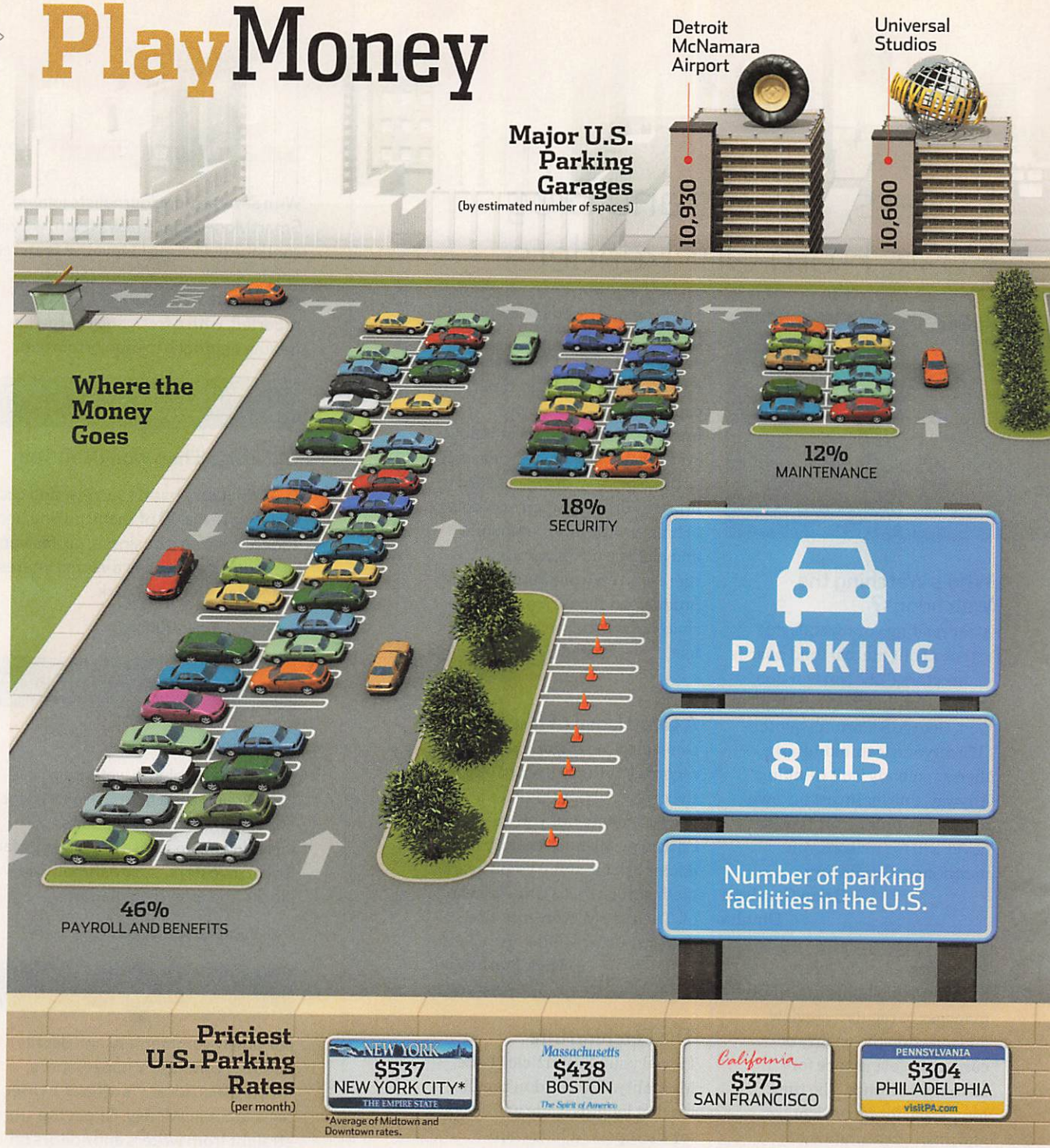
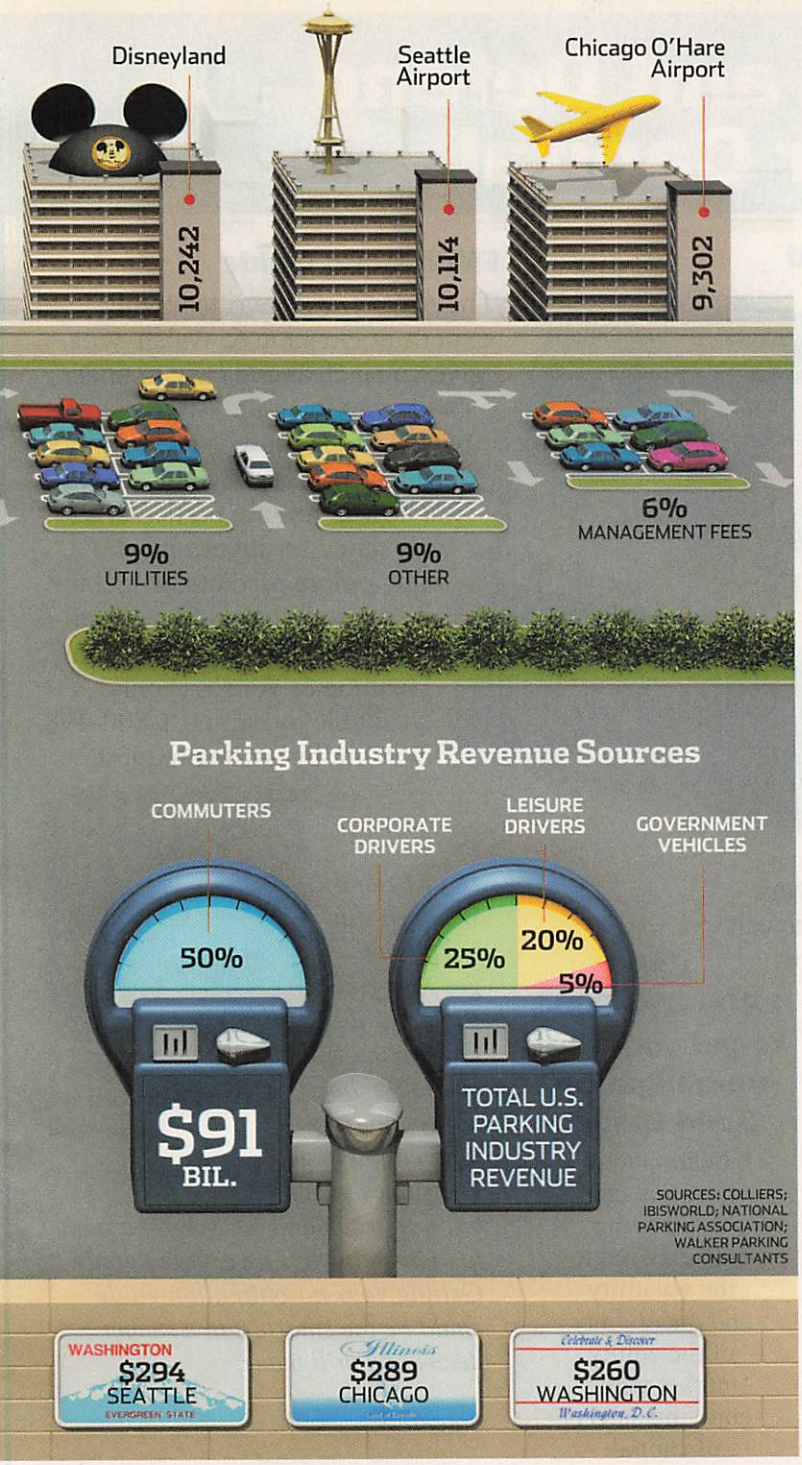


Meter-Made Profits

Even in a shaky economy, people have to park somewhere. When it comes to garages, if you build it, they will come—and profits might follow.

Who doesn't like spotting an open parking space? The parking industry, for one. With the high unemployment rate and more shoppers and travelers staying home, the recession did a number on the $9 billion lot and garage business. But as the economy—and new-car sales—have bounced back, garages are again filling up, say experts. Running a 500-space garage in a high-traffic area costs about $350,000 annually, says John Dorsett, senior vice president of Walker Parking Consultants in Indianapolis. If you build a lot, expect to pay about $20,000 per space; if things go well, the business could make a profit of 5 to 12 percent by its second year. Because upkeep is minimal, those margins are likely

Infographics by Emily Cooper for SmartMoney



to climb once the real estate is paid off, pros say. Another way to boost profits: automated payments, which minimize labor costs. Atlanta-based Parkmobile, for example, lets drivers skip the meter and pay for their space via a smartphone.

Investors looking to snag a prime spot might consider new developments at airports, hospitals and other venues where pay-to-park is the primary option. (It's harder to compete against the free municipal lots in some downtown areas.) Those who don't want to lord over their own garage can also invest in firms like ABM Industries (ABM) or Standard Parking (STAN); the latter's stock has climbed more than 10 percent in the past year. —*Tania Karas*

Treasure Hunt

IF ONE MAN'S trash is another man's treasure, that second guy must be feeling flush. The U.S. generates about 250 million tons of garbage annually, according to the Environmental Protection Agency, and we spend $46.3 billion a year hauling our castoffs to landfills, an amount that's expected to rise 15 percent by 2017. How some are cashing in on trash:

SWAPPING SCRAPS RecycleMatch pairs firms that produce certain kinds of waste with ones looking to purchase those materials. The Houston firm's Web-based software, which starts at $5,000 a month, helps corporate sellers auction off recyclable goods like metal or chemicals.

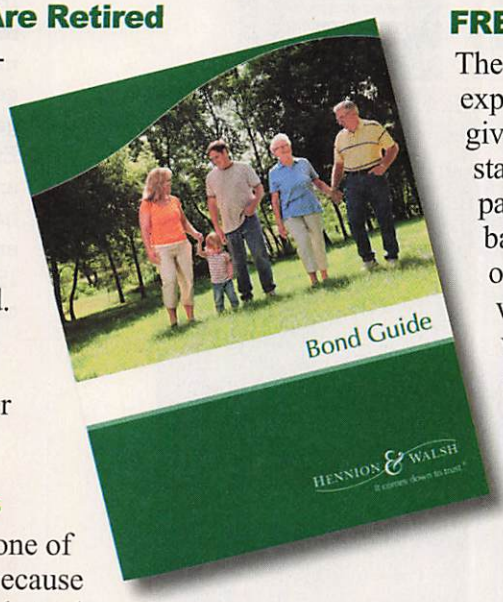
CLEANING UP Oregon firm InEnTec sells melters that convert waste into clean fuel. Its technology currently operates at two U.S. facilities and is set to be installed at a new Nevada plant, which InEnTec says will produce 10 million gallons of ethanol a year.

REUSE REWARDS New York firm Recyclebank says most people won't recycle without incentives—so it rewards green habits with discounts. The company runs programs in 300 cities, earning its 3.6 million members an average of $130 each in annual deals. It raised $85 million in venture funding last year. —*T.K.*

Protect and Defend Your Capital

If You're About to Retire or Are Retired

If you don't have bonds in your portfolio, specifically tax-free municipal bonds, you could be setting yourself up for disappointment, frustration and a more uncertain retirement. Remember how you felt in 2008 and 2009 when the stock and real estate markets crashed. Municipal bond investors weathered the financial storm much better than many equity-only investors. Be better prepared this time.



Take a Closer Look at Bonds

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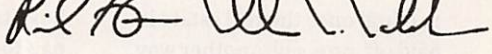

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Annuity providers are changing the rules.

Photograph by Mark Peterson for SmartMoney

The Reemerging Markets

Uncertainty over the fate of Europe and China has sent investors fleeing from emerging-market funds. So why are some pros heading back in? By Reshma Kapadia

CHINA'S ECONOMY is slowing down. India's economic reform has stagnated. Europe—well, it's a mess. Stocks in numerous nations not named the United States have been pounded during the past year. It's easy to see why many investors have decided to sell first, ask questions later when it comes to emerging-market stocks. So it sure seems odd that some of the savviest investors are actually tiptoeing into those stocks.

Crazy? Perhaps. But these managers say there's one big reason they're wading into the likes of Indonesia, Poland and even China: The stocks are dirt cheap. Emerging-market stocks, as a group, are trading well below their historical five-year average of 10 times expected profits. And while those profits may be growing slower than the economies (which are also slowing), analysts say much of that is baked into share prices. "They don't have significant downside," says David Riedel, head of Riedel Research, which specializes in emerging markets.

Investors, fearing a sharp slowdown, have hammered the MSCI Emerging Markets Index down 18 percent in the past year. The so-called BRIC nations (Brazil, Russia, India and China) have fallen even further, by 24 percent. Some fund managers, though, say such declines have given them a chance to pick up stocks cheaply in countries that many analysts agree are in better fiscal health and have faster-growing economies than the U.S. But bumping up the comfort level, analysts say, is how emerging-nation governments are responding to the global slowdown. Unlike policy makers in the U.S. or Europe, those in the emerging world have far more fiscal and monetary ammunition to work with, not having spent as much as developed nations did during the financial crisis and its aftermath. Leaders in China, Brazil and elsewhere are shifting from interest-rate hikes last year to cutting rates and stimulating their economies this year. "Now you have the entire

Photograph by John Kuczala for SmartMoney

emerging-policy community working on your portfolio bet," says Jim Paulsen, strategist at Wells Capital Management.

And China, for one, now has another advantage over other emerging markets: It's surprisingly cheap. While there's still plenty of debate about just how much that nation's economy is slowing, fund managers are nonetheless hunting for bargains. Jerry Senser, manager of the $1 billion MainStay ICAP International fund, has been focusing on consumer-oriented businesses, such as casinos, entertainment and auto firms, that should benefit from China's growing middle-income population. Some, such as Thornburg Developing World fund manager Lewis Kaufman, have gravitated toward Internet firms. "You would have paid a lot more to access this type of growth before," says Kaufman, adding that Web search firm Baidu was trading at 50 times profits a couple of years ago and now has a P/E of 19.

Other pros, meanwhile, are looking farther afield—to Poland, for example. Having joined the European Union in 2004, Poland's economy has gone through its growing pains already, and its institutions have been stress-tested, Riedel says. Given that it is not part of the euro, the country has some flexibility and enjoys its role as the back office and low-cost manufacturer for European companies looking for skilled or technical work on the cheap.

Colombia is also increasingly in the spotlight, as consumers and the government boost spending. While not as cheap as other markets, Colombia still trades below its historical average. "With economic growth of about 5 percent, resiliency in earnings and lack of exposure to Europe, it's one of the most interesting markets," says Deborah Velez Medenica, manager of the Alger Emerging Markets fund and a veteran emerging-markets investor.

In recent years, investors have also begun flocking to Indonesia for many of the same reasons they liked India and China in the past—a large population (the world's fourth-largest), an emerging middle class and improvements in tackling corporate governance issues. Even though it's not one of the cheapest markets, a pressured currency has dragged down valuations of blue chips to about 10 times earnings. "They have seen the doors of hell after their own currency crisis and don't want to go back," Riedel says.

Not everyone is buying the argument, of course. Rattled by China and Europe, investors pulled $1.6 billion out of emerging-market-related stock mutual funds in May, according to Morningstar. But then, such fear is music to the ears of some professional money managers with a long-term horizon—who, rather than run with the crowd, have been increasing their exposure to emerging markets of late. To be sure, even those who are doubling down caution that such higher-risk stocks could be out of favor for a while. But even so, Citigroup global emerging-markets strategist Geoffrey Dennis expects the group to rise about 20 percent by year's end. Part of such bullishness is because, overall, the world economy will survive this latest crisis. "Once the reality that Europe is going to be standing settles in," says Riedel, "investors will look around and see that there is true value in emerging markets."

BUILDING BRIDGES ABROAD

Economists forecast that emerging-market nations will need to spend $20 trillion on infrastructure by 2030. No wonder railroad and grid-building stocks in such countries are gaining in popularity with investing pros. Where analysts are looking these days in three key locales:

India: Infrastructure woes have led some investors to sour on India, but Marc Tommasi, head of global investment strategy for Manning & Napier, likes firms addressing these problems, such as Jain Irrigation Systems (JI.IN), which helps agriculture.

China: China's latest five-year plan calls for about $3 trillion in spending as building is focused on the second- and third-tier cities, according to a report from Barclays.

Russia: After ignoring the country's infrastructure for years, Russia's government will need to upgrade roads and power grids, says Alger's Deborah Velez Medenica. She likes rail transport firm Globaltrans Investment (GLTR.LI).

Off the Rack

Can't find the sale racks at Saks? That's exactly how the CEO likes it.

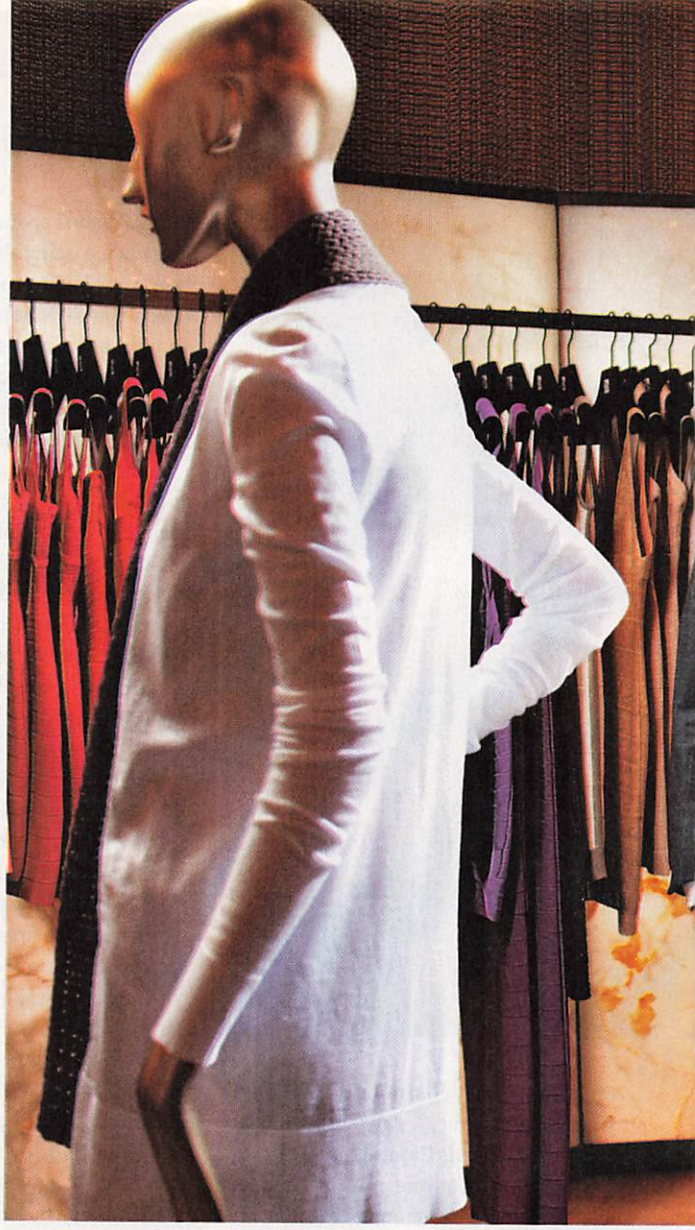
By Jen Wieczner

FOR MORE THAN a decade now, shoppers have gotten used to waiting for a sale to buy clothing at department stores. Thanks to a recession, hypercompetition among retailers and another recession, a sale was never that far away. Even Saks Fifth Avenue, whose primary customers aren't necessarily coupon clippers, was Wal-Martesque in its discounting; just over three years ago, Saks was slashing prices on everything from Armani to Zegna by as much as 70 percent.

Company boss Steve Sadove wants to put a stop to that. During the last December holidays, the sales tags were reserved almost exclusively for the season's dregs. Over the past year, Sadove has pared down the discounts at Saks's big semiannual friends-and-family sales. Remaining sales are shorter and offer smaller price cuts. Saks has nixed discounts on cosmetics and some designers altogether. "We have to reinforce that we're not a promotional department store," he says.

Saks hopes, of course, that getting rid of sales will actually increase both its revenue and profits. So far, Sadove's encouraged. In 2011 the retailer, which has 45 department stores, posted a profit for the first time since 2008. In the 2012 fiscal year, same-store sales were up nearly 10 percent. Since the recession ended, the store's high-end clientele have been quick to resume shopping. But the move could backfire if those 1 percenters don't like what Saks is selling: About 80 percent of Saks sales come from 20 percent of its customers. "It's a lot of stuff going through a very small segment," says Morningstar retail analyst Paul Swinand.

Investors aren't sure what to make of Saks's new strategy. The stock is up 12 percent year to date, slightly better than the Standard & Poor's Retail Select Industry Index. Some analysts think Saks's stock is too expensive, considering how much it can actually grow in the next few years. That doesn't worry Sadove, who earned his marketing reputation relaunching Herbal Essences with the shampoo brand's racy 1990s "orgasm" commercials. SmartMoney caught up with the CEO in his New York office (around the corner from Saks's flagship store). We asked him how Saks gets shoppers to spring for big-ticket items—even online—and where you can still find deals.



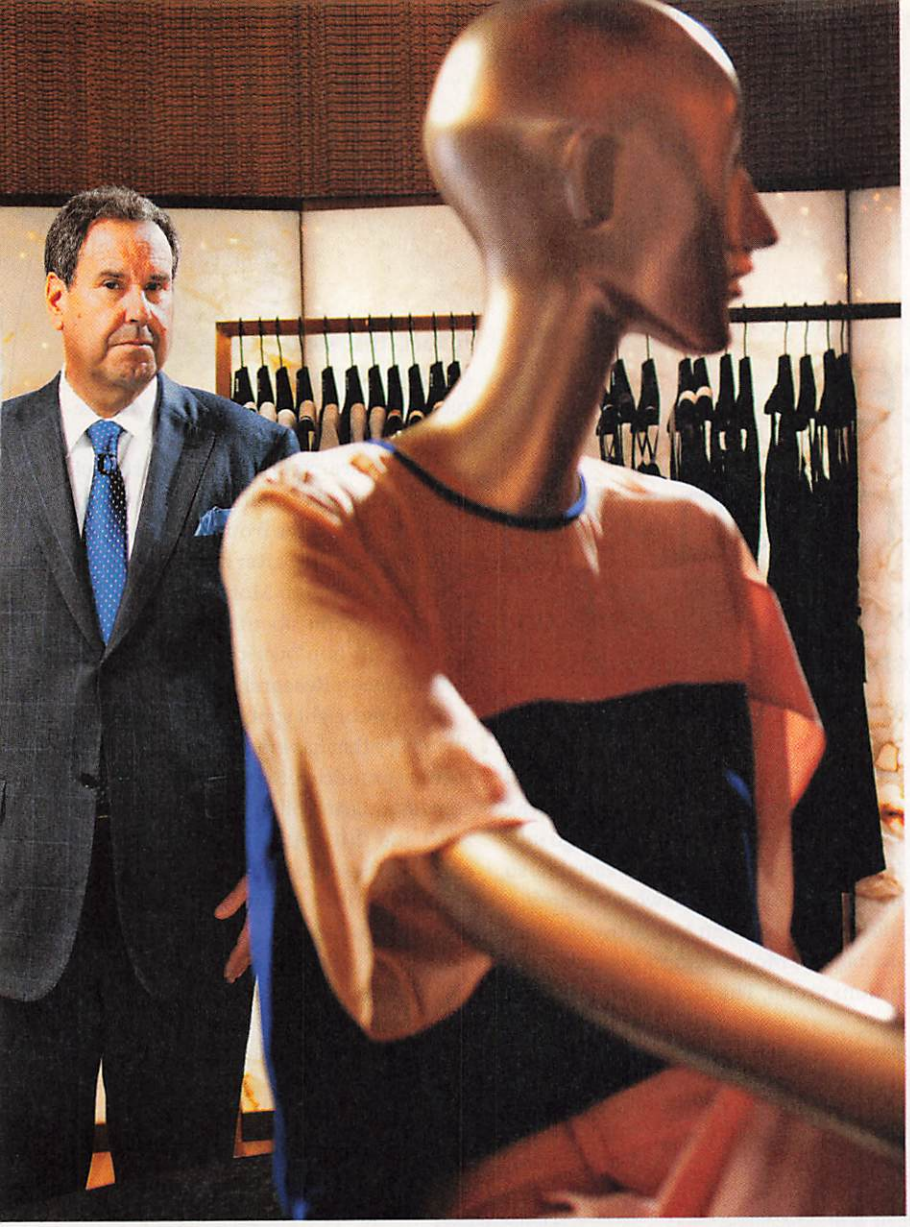
You've moved away from sales at stores, yet you launched a flash sale site, Saks FashionFix. Why?

It's attracting a new customer to the site, and they're also buying on Saks.com at full price. Flash sales got created in the recession when there was this vast amount of excess product from the very high-end designers. The problem now is that the kinds of deals the customer wants just aren't available. No designer wants to sell his brand at 70 or 80 percent off on purpose.

Do people buy $6,000 dresses and diamond rings online?

High-end people will buy very high-end apparel, especially women's apparel. The customers are a little younger, a little bit more fashion-forward, more item-driven

Photograph by Evan Kafka for SmartMoney



as opposed to head-to-toe. The online business has been growing about 30 percent over the past couple of years.

You've emphasized that Saks has made technological improvements.
In the midst of the recession we invested in robotics in our distribution center to speed the delivery experience and be much more efficient in servicing demand. We were losing a lot of money, so we had to place bets on what's really going to shape the future of the firm.

Saks has 45 department stores, but 63 outlets. Doesn't that risk cannibalizing sales?
Customer overlap is less than 10 percent. We're opening five new outlets this year and six in 2013. It used to be that outlets carried the leftovers from stores, but now only about 15 percent is leftover. The rest is largely made for the outlet.

Will we see more Saks department stores in the future?
Between the Internet and our mobile customers, we probably don't need too many more Saks stores. We're focused on making our current stores more productive.

What do you look for when you go shopping?
I love going in anonymously—can't do it in my own stores, but I can certainly do it in others. I look at how I'm treated: Are people being treated the same way, whether they're wearing sweatpants or a suit?

MOVING INTO MORE MARKETS

Saks recently closed eight Fifth Avenue stores in the U.S., but it has made a small push abroad. The company has stores in the United Arab Emirates, Mexico, Bahrain and, starting this year, Kazakhstan.

SAKS INC.
(SKS)

PRICE
$11

EST. 2013 NET INCOME*
$85.2 mil.

EST. 2013 EPS
$0.45

EST. 2013 P/E
23

MARKET VALUE
$1.7 bil.

*Fiscal year ends 1/31/13. SOURCE: BLOOMBERG

Desperately Seeking Income

Annuity providers are quietly tweaking the payouts on some of their popular products. Why the changes have advisers and investors up in arms. By Reshma Kapadia

OLDER INVESTORS had enough to worry about with the stock market jolting their IRAs and Uncle Sam's bonds paying less than the price of an early bird special. Now, add to the mix the shrinking benefits from annuities.

In recent months, longtime annuity providers have begun scaling back on some payouts, changing rules or raising fees—to the point where many financial advisers are now wondering whether their "value propositions" even make sense for most clients. The reason for the changes? The same market volatility and paltry Treasury rates that, in theory, drew income-seeking investors to annuities in the first place are actually making it hard for annuity providers to turn a profit—at least with the payout formulas they offered just a couple of years ago, says Donnie Ethier, senior analyst at Cerulli Associates.

One recent tweak from MetLife, for example, reduces the withdrawal rate on one of its guaranteed minimum income benefit riders on several variable annuities from 5.5 percent to 5 percent. (A spokesperson says it continues to "de-risk" and make product changes as necessary, in light of the turbulent markets.) Other insurers have been reducing guaranteed rates, linking fees to volatility or raising the cost of riders. "The items that go into the calculation have become variable, so it's harder to understand what you are going to get," says John McCarthy, product manager at Morningstar's insurance solutions group. The factors are so in flux, in fact, that some advisers say they are reevaluating whether the products make financial sense. Sales of variable annuities, which are experiencing the brunt of changes these days, fell almost 8 percent in the first quarter from a year ago, to $36.2 billion; this, after several years of gains, according to Morningstar. Fixed annuity sales fell about 9 percent, to almost $17 billion over the same period, notes Beacon Research.

$566 bil. Amount put into variable annuities

The one bright spot, say analysts, is in a category that has long been overlooked: income annuities. Sales jumped 23 percent last quarter, piling on to increases in 2010 and 2011. And although the "income" in these income annuities has fallen along with interest rates, the payouts often trump other sources, experts say. A 70-year-old male can collect some $620 a month for a $100,000 income annuity, says data firm Cannex. While down 11 percent from 2010, it's still a lot richer than what the same investor would see from a Treasury bond portfolio or similar fund. The edge, says Matt Grove, vice president at New York Life, comes from the fact that such annuities gain by pooling the investments of thousands of people with different life expectancies. As a result, that 70-year-old can essentially nab a 4 percent yield from the income annuity, double the yield of short-term bonds.

$135 bil. Amount taken out of stock funds

But for some advisers, the low rates and recent tweaks are just too much. Michael Bischoff, a partner at Bloomington, Minn., financial advisory firm Webb Financial Group, had for decades built annuities into retirement plans. The changes, he now says, "make it virtually impossible to present them to clients."

Illustration by Ryan Etter for SmartMoney

THE SNOW DAY
THE CAMPING TRIP
THE DRIVE OVER INDEPENDENCE PASS
THE "WE DON'T NEED AIRLINES" SUMMER VACATION
THE 18-HOURS STRAIGHT-THROUGH ROAD TRIP
THE TWO-LANE HIGHWAY PASS
THE SCENIC OVERLOOK
THE "HEY, LOOK, THERE'S A MOOSE" DRIVE-BY
THE WHITE-WATER RAFTING ADVENTURE
THE COLLEGE-FOOTBALL TAILGATE
THE RIDE HOME FROM THE DUDE RANCH
THE RUN TO THE DOG PARK
THE ROAD TRIP

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"In Greenwich, heart of the hedge fund industry, I saw no Ferraris at all."

BRETT ARENDS is a senior writer at SMARTMONEY. His latest book is *Storm Proof Your Money.*

EVER SINCE the financial crisis broke in 2008, investors have been looking for a magic bullet. They want returns without risk, investment without turmoil, profits without fear.

One of the options is mutual funds that look or act like hedge funds. They often have labels such as "absolute return," "total return" or "market neutral." In recent years, a whole wave of these has hit the market. Lipper lists about 440 funds in hedge fund–type categories. Only one in four has been around for five years.

Are they any good? More important: Is the concept any good?

You can see the appeal to many shell-shocked investors. After all, hedge funds—those secretive and exclusive funds open to the rich and big institutional investors—are supposed to have all sorts of tricks up their sleeves. They can bet against overpriced stocks, bonds and other assets; hold cash; use derivatives; switch between asset classes. At a time of perpetual turmoil across the markets, this has to be a good thing, right?

Alas, the answer is, "Well, yes, sort of. Sometimes."

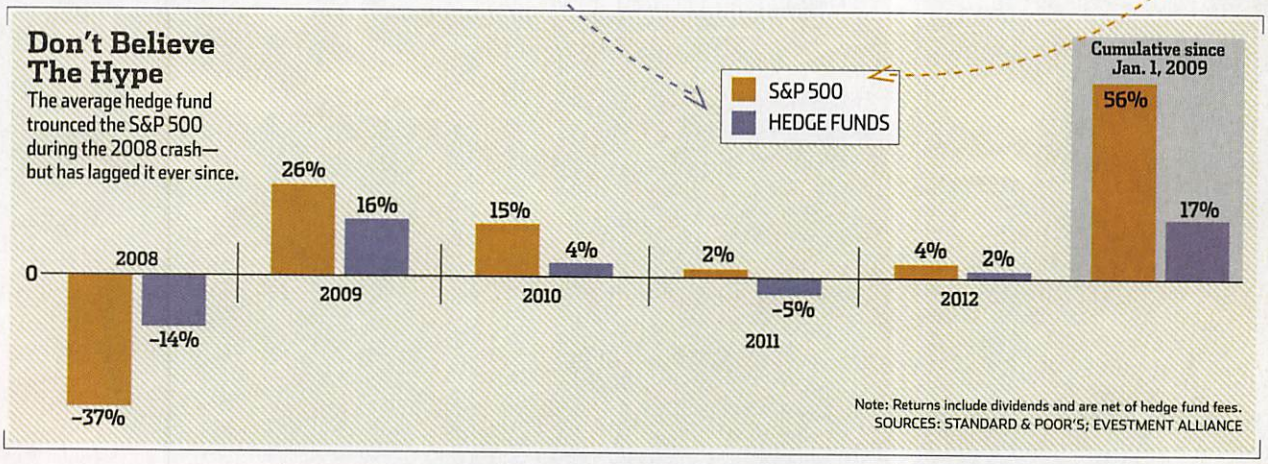
Travel to the heart of the hedge fund world: Greenwich, Conn., a picturesque town on the New England coast about 40 minutes from New York. Walk through downtown, and among the upscale restaurants and chichi boutiques you'll see something surprising: boarded-up shops. When I was there recently, I counted 16 cases of "retail space for rent" and "long lease available" in six blocks.

104% 10-year gain of the average hedge fund

The shine has come off the hedge fund industry. The boom days of the midzeros have long gone. In two days in Greenwich, I saw no Ferraris at all and only one Porsche—and it needed a wash.

119% 10-year gain of a basket of low-cost mutual funds

This should be a golden age for hedge funds. From Lehman Brothers to Greece, we have never seen so much turbulence as in the past few years. But the results aren't what you'd expect. The median hedge fund was actually down in 2011, and this year is little better. Financial research firm TrimTabs says the industry is suffering net redemptions. Many marginal funds have vanished. Well-



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heeled investors have been turning more skeptical of the hype.

"When the stock market went up a dollar, our hedge funds went up 40 cents; when the stock market went down a dollar, our hedge funds went down 60 cents," recalls Stan Mavromates, investment manager of the $50 billion Massachusetts state pension fund. Funds promised "absolute returns," he says, but when 2008 came, "we didn't do as well as we thought we would." The losses wiped out all the gains of the preceding five years and then some. "We thought, 'What are we getting in value out of these funds?'"

There are successful hedge funds out there as well. There is research to suggest the best ones really can produce higher returns, lower risk, or both. The trouble is that there are very few. Finding them in advance is a challenge. And they are like Groucho Marx's ideal club: The best funds often don't want your money.

"When you are a hedge fund investor, you want to invest in the top 1 or 2 percent," says Brendan O'Brien at Gold Coast Wealth Management. "These guys really do outperform the market across five or 10 or 15 years."

The numbers tell a story of how rare that can be. Industry research firm eVestment Alliance has one of the largest performance databases. It tracks thousands of funds. In the five years to the end of 2011, it says, the median hedge fund posted an overall gain of 23 percent. Over 10 years the figure was 104 percent.

Do you think that's good? Think again. Most funds dropped off the radar along the way. They closed, or they just stopped reporting figures because they were doing so badly. Over just the past five years, says eVestment, two-thirds of the funds dropped out of its database.

Meanwhile, compare these returns with a benchmark portfolios that even Grandma could afford: 60 percent Vanguard Global Equity, 20 percent Vanguard Long Term Treasury and 20 percent Vanguard Treasury inflation-protected securities, rebalanced quarterly.

That portfolio gained 15 percent in the five years through 2011. It beat nearly half of the hedge funds that survived in the eVestment database. And over 10 years, that simple three-fund portfolio gained 119 percent: In other words, it even beat the median hedge fund among the precious few that lasted the distance—all, of course, while charging investors a lot less.

So what's behind this paradoxical underperformance? Some of the problems are exclusive to investors in big-money hedge funds, such as the very high fees many of them charge, the perverse incentives that can encourage foolish risks and, in some cases, unregulated chicanery.

Yet the ordinary investor in the hedge funds' cut-price mutual fund cousins has to overcome other problems. One is that few mutual funds will attract the brilliant minds you can find in Greenwich. Another is that mutual funds make their money from being big, not from being best, so fund companies must do what sells. That generally means chasing performance, and running with the herd.

Hedge fund managers—and their Main Street cousins—are fond of using jargon to spice up what they do, from "alpha" to "beta" to "proprietary algorithms." It's mostly a snow job. Anything based entirely on mathematical models is based on a fundamental flaw—the idea that past performance is a guide to the future. It's an assumption constantly rebutted by history.

Meanwhile, any fund is only as good as its manager. Investors such as Charles de Vaulx at IVA Worldwide (now closed to investors), Stephen Romick at FPA Crescent and Warren Buffett at Berkshire Hathaway have managed to outperform markets over the stretch without resorting to jargon at all. The active managers I know and respect most are individual stock pickers.

The long and short of the hedge fund industry is that there is, of course, no magic bullet at all.

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Hitting the books to find smart education stocks.

Photograph by Mark Peterson for SmartMoney

When It Pays To Finish Second

Investment pros have made a habit of—and made money—betting on the second-biggest company in an industry. By Elizabeth O'Brien

COMPANIES FIND plenty to brag about—products that are cheaper, faster, tastier, even smarter. One boast you're not likely to hear, though, is: "We're No. 2!" But while firms aren't likely to brag about being the runner-up, experts say it sometimes pays for investors to shoot for second place. "There's a lot of money to be made at No. 2," says Tom Forester, chief investment officer at Forester Capital Management, which manages $300 million.

Call them the No. 2 stocks with the No. 1 returns. In many industries, it's the second-place finisher that winds up paying off best for investors. Stockwise, over the past 10 years, Target has outperformed Wal-Mart, Apple has outmuscled Microsoft, and DuPont has outdone Dow Chemical. Experts say that playing second fiddle has some significant advantages these days. The sluggish recovery has diminished the pricing power that dominant companies enjoy, because consumers are less willing to pay up for the leading brand. That means the top dogs will have to cut prices—and potentially hurt profits—to maintain their edge. The second bananas often don't have such problems. "A No. 2 player will be totally geared toward taking share," says Nicholas Bohnsack, sector strategist at Strategas.

Some silver-medal advantages hold true in any economy. No. 2 companies tend to be cheaper than the top name in their industry. For example, Chevron trades at nine times next year's expected earnings, versus Exxon's price/earnings ratio of 10. Mark Freeman, chief investment officer at the Westwood Holdings Group, recently sold his Exxon shares and picked up Chevron. What's more, they tend to have higher growth prospects. For No. 1, "it's tough to stay on that wheel, generating these kinds of growth rates," Freeman says. One growth metric he likes is return on invested capital, a measure of how efficiently a company invests money so as to eventually return

Illustration by Ryan Etter for SmartMoney

it to shareholders. Chevron has a return on capital of 16 percent to Exxon's 14 percent. No. 2 firms also can keep their eye on taking out the big dog, while the third-largest firms usually have other issues to combat before going after No. 1. "No. 3 can quickly become a no man's land," Forester says. (Case in point: Few investors expect Sears Holdings to catch up to Wal-Mart or Target anytime soon.)

Often, traders will buy stock in the No. 2 firm if it finally eclipses the leader. "You have very few markets where you have a definite No. 1 that never makes a false step, never stumbles," Bohnsack says. One rare example: the soda business, where Coca-Cola has topped PepsiCo every year since at least 1990, according to *Beverage Digest*.

Pete Sorrentino, senior portfolio manager at Huntington Asset Advisors, tries to anticipate this strategy: He'll buy a No. 2 company if the longtime No. 1 starts to look vulnerable. "If the big guy stumbles, then money will flow into No. 2, and you'll get a huge benefit by being there first," Sorrentino says. This strategy works best in markets where stocks are making significant moves in either direction, unlike today's, where stocks are mostly bouncing around in a limited range. No. 2 stocks also tend to be a bit more volatile than the biggest names. That might actually help in today's so-called range-bound market by adding a little extra oomph to investors' portfolios when markets rise, Bohnsack says.

To be sure, investors looking to capitalize on No. 2s can't just buy them at random. "Whether it's a No. 1, No. 2 or No. 10, you want to own companies with an advantage," Freeman says. In today's weak economy, the strongest companies have lots of cash on their balance sheets, Bohnsack says. They're also growing profits by increasing sales, not just by cutting costs. Such a course is all the more necessary, he adds, because companies have already trimmed expenses to the bone.

Smart Picks

Some analysts say it might pay to go with an industry's second-place finisher rather than its top dog.

CHEVRON (CVX, $106)
The No. 2 diversified oil and gas exploration company trades at nine times next year's expected earnings, versus 10 times for No. 1 Exxon. Plus, San Ramon, Calif.–based Chevron's dividend currently yields 3.4 percent to Exxon's 2.7 percent.

MARKET VALUE
$208.5 bil.
EST. 2012 EPS
$12.24
EST. 2012 P/E
9

PROGRESSIVE (PGR, $20)
This Mayfield Village, Ohio, firm is a longtime second to Allstate among publicly traded home, life and auto insurers. But Progressive has new technology—devices that track drivers' performance and charge them accordingly—that could boost its share in the auto market, says Meyer Shields, a managing director at Stifel Nicolaus. "I would give them the intellectual edge," Shields says.

MARKET VALUE
$12.2 bil.
EST. 2012 EPS
$1.21
EST. 2012 P/E
17

KIMBERLY-CLARK (KMB, $85)
The Dallas maker of diapers, toilet paper and other consumer essentials used to be cheaper than No. 1 Procter & Gamble, but now it trades at a slight premium. Still, Kimberly-Clark stands to benefit more from falling commodity costs than its larger rival, which has a more diverse product lineup, says Tom Forester, chief investment officer at Forester Capital Management.

MARKET VALUE
$33.4 bil.
EST. 2012 EPS
$5.16
EST. 2012 P/E
16

CAPITAL ONE FINANCIAL (COF, $54)
Capital One is the No. 2 pure credit card company, behind American Express. While the two companies' business models aren't identical—AmEx gets a larger percentage of its sales from processing transactions—Capital One trades at eight times next year's expected earnings, versus 12 times for AmEx.

MARKET VALUE
$31.6 bil.
EST. 2012 EPS
$6.24
EST. 2012 P/E
9

PEET'S COFFEE & TEA (PEET, $53)
Although second to Starbucks in grocery store sales, this Emeryville, Calif., firm has the best growth opportunities of any coffee company, says Nick Setyan, analyst at Wedbush Securities. Setyan estimates that Peet's can grow earnings by as much as 25 percent annually for the next several years.

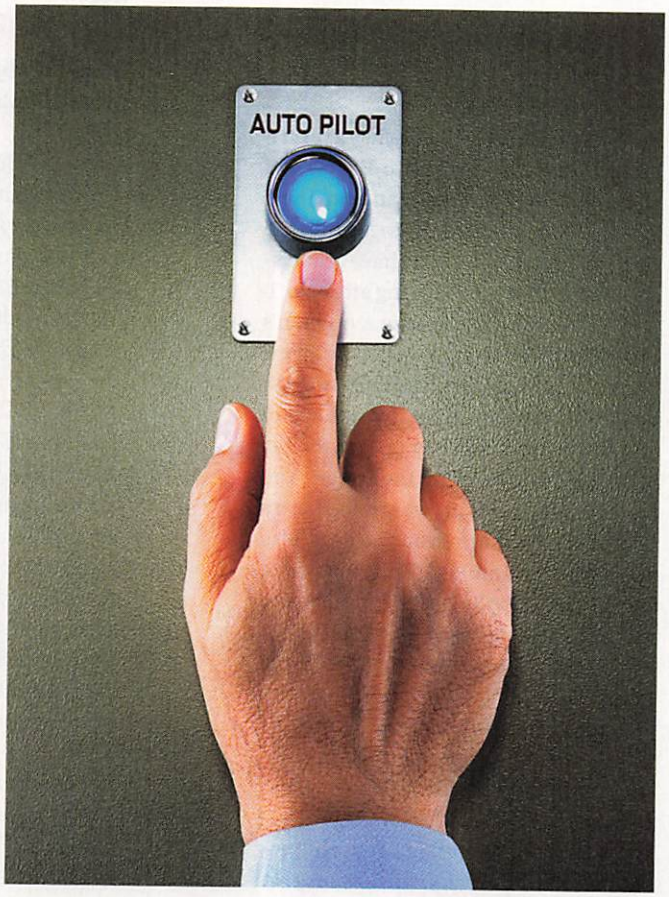
MARKET VALUE
$708.9 mil.
EST. 2012 EPS
$1.74
EST. 2012 P/E
31

SOURCES: BLOOMBERG

Unexpected Holdings

Why have dozens of stock mutual funds made exchange-traded funds some of their largest positions?

By Ian Salisbury



THE WHOLE POINT of actively run funds, their proponents say, is that a living, breathing fund manager has a better chance of sussing out great investment opportunities than an exchange-traded fund, which just blindly tracks an index. Indeed, that's one of the reasons actively managed funds have higher fees than ETFs—to pay for all that expert guidance.

So it might come as a shock to some investors that the top holdings of several major stock mutual funds are actually ETFs. Take the $900 million Columbia Small Cap Core fund. Recently, its largest holding wasn't some hot technology or pharmaceutical stock; it was the iShares Russell ETF—which itself merely tracks an index of 2,000 small stocks. That iShares ETF is pretty popular with other portfolio managers, too. It's one of the top holdings, for instance, of the $1.8 billion American Century Small Cap Value—as it is of the $860 million Invesco Van Kampen Small Cap Growth. And dozens of other funds hold the ETF as well. The practice isn't limited to small-stock funds, either—ETFs have been showing up in all sorts of equity-centric portfolios. "It's ironic. But, hey, ETFs are useful," says Matt Hougan, president of ETF Analytics at publisher Index Universe.

$572 bil. Growth in stock-centric ETF assets since 2007

The "useful" argument is one that the fund firms also trot out. A spokesperson for Columbia Asset Management uses ETFs as a substitute for cash. When the market plunges, investors often want to sell their fund shares en masse. That can force managers to dump some of their favorite stocks at unfavorable prices to pay off anxious investors. So, fund managers say, they own an ETF, which is easy to sell and lets the fund keep the stocks it really likes. Of course, a fund could just keep cash or short-term bonds to meet the demands of its investors, but fund firms argue that those assets end up being a drag on the fund's returns.

Some experts aren't as generous. ETFs have annual fees, so throwing them into a mutual fund—which has its own annual fees—adds additional costs for investors, critics contend. "It's just being lazy. Buy stocks. It's what people are paying you for," says Herb Morgan, president of money-management firm Efficient Market Advisors. Analysts say investors can easily express their own disapproval with the tactic. It's easy enough to look up what any mutual fund holds. If a mutual fund holds a big stake in an ETF, an investor can just buy the same ETF...and sell the fund.

TERM OF THE MONTH
BIMODAL OUTCOMES

"Things have the potential to be really bad or really good—bimodal outcomes—and that's a scary proposition for investors," says Chad Carlson, a financial adviser at Balasa Dinverno Foltz in Itasca, Ill. Standard & Poor's Howard Silverblatt says the market's lack of consistency unnerves many investors. But veteran market watcher Jeff Rubin, of Birinyi Associates, says not much has changed: The latest term, he says, is just another way to say nobody really knows why the market moves up or down on a given day.

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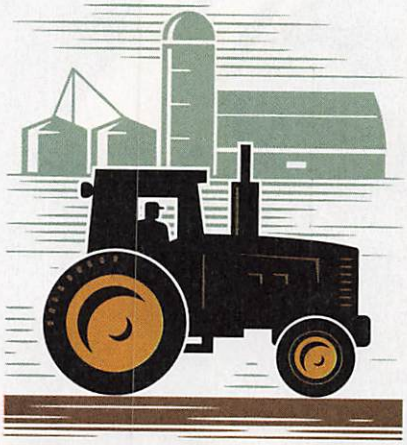
Down on the Farm

High crop prices could be a boon to farmers and investors alike. Two ways to buy into the world's growing demand for food. By Russell Pearlman



PLAY IT SAFE

Farming Equipment

RISK LEVEL 20

The world's population is growing fast, but the amount of land to grow food is not. So, as simple supply and demand economics would dictate, food prices are rising. According to the United Nations, grain prices have more than doubled since 2003, and some analysts expect them to continue rising for the foreseeable future. That trend could be a boon to American farmers, and when farmers feel rich, they often shop for new equipment. Gary Bradshaw, a portfolio manager for the Hodges family of mutual funds, likes Titan Machinery (TITN), a distributor of tractors in the Great Plains. Titan's 2011 net income was $44 million, nearly double what it was in 2010. For a more international bet on farming, Bradshaw also likes Deere (DE). The Moline, Ill., maker of giant green tractors and other big-ticket farm equipment grew its net income by 56 percent in four years, from $1.8 billion in 2007 to $2.8 billion last year.

GO FOR BROKE

A Chicken Run

RISK LEVEL 90

If the rest of the world is going to eat more food, it surely will eat more chicken, right? U.S. chicken-piece prices have risen anywhere from 2 percent (breasts) to more than 120 percent (wings) from a year ago. But buying into poultry is a lot riskier than taking a flier on most other farm-related businesses. Because prices have been so good, chicken firms could produce a lot more birds. "The danger is you drive prices lower," says Heather Jones, a managing director at BB&T Capital Markets. Plus, higher crop prices pose a problem: Sanderson Farms (SAFM), the nation's No. 3 chicken producer, says its feed costs (primarily corn and soybeans) were nearly 40 percent higher last year than in 2010. Still, chicken producers have made their operations more efficient, and they've steadily increased exports to Asia and Europe. Bradshaw says he'd consider buying Pilgrim's Pride (PPC), another major chicken producer, if its stock price dipped.

TOLD YOU SO...

In "Taking a Bet on Alternatives" (September 2011), we said that Advanced Energy Industries (AEIS) was well positioned to capitalize on the growing solar market in the U.S. The stock has increased 42 percent since then, which the company attributes to a change in management and repurchasing shares.

...OOPS

Since highlighting Arch Coal's (ACI) strong position in the coal industry (Stock Screen, July 2011), its stock has fallen 77 percent, slammed by a significant drop in coal prices. In a statement, the company says it continues to take steps to optimize its portfolio, which should let it "prosper in the inevitable market rebound."

Illustrations by Scott Roberts for SmartMoney

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"Erratic price swings can work to the advantage of long-term investors."

JACK HOUGH, a former Wall Street adviser, is the author of *Your Next Great Stock.*

WARREN BUFFETT famously said that his favorite holding period for a stock is forever. This being SMARTMONEY magazine's last issue, it seems a good opportunity to screen for stocks to hold, if not quite forever, for at least a decade or so.

But today's stock market seems to favor nimble traders. The S&P 500-stock index lost more than half its value and then doubled it—all within the past five years. Facebook has been valued as low as $54 billion and as high as $96 billion, and it has only been trading since March.

Fortunately, such erratic price swings work to the advantage of long-term investors, especially those who regularly screen the market for bargains. In his 1949 classic *The Intelligent Investor*, economist Benjamin Graham described Mr. Market, a character who comes to the investor's door each day looking to trade shares. Sometimes he is ecstatic, and other times, deeply depressed—and his prices vary accordingly. An investor who does his research and keeps a cool head can make a lot of money from a trading partner like that.

The first step: Identify quality companies. Wall Street obsesses over profit growth, but more important for long-term holders is something called return on invested capital, or the return a firm earns when it sinks funds into its business. A consistently high ROIC is a sign that a company enjoys a lasting competitive advantage and that it spends its money carefully—things that bode well for long-term returns.

Another excellent sign is a steadily rising dividend payment, which serves at least three purposes. First, it signals that management is confident about future profits. Second, rising dividends often beget rising share prices, as yield-hungry investors buy in. Third, investors who reinvest those dividends into more shares can take even greater advantage of short-term price swings, buying more shares when they are cheap than when they are dear.

Above all, the best stocks are ones that are cheap relative to fundamental measures of value like earnings and cash flow. These firms often have flaws, which is why they trade at discounts, but the discounts are often too large.

Exxon Mobil faces falling crude prices; and Abbott Laboratories, the uncertainties of drug development. General Dynamics could be prone to budget cuts; Western Union, to increased regulation; and Oracle, to fierce competition. But all have earned high returns on invested capital, and their modest valuations and rising dividends suggest they are good picks for long-term stockholders.

To readers who have followed this column over the years, thank you, and kindly find my future columns on SmartMoney.com.

Hold 'Em These stocks have modest valuations, rising dividends and high returns on invested capital—reasons to buy and hold on to them.

Company (Ticker)	Industry	Share Price ($)	Market Value ($ bil.)	Return on Invested Cap. (%)	Price/ Earnings*	Dividend Yield (%)
Abbott Laboratories (ABT)	Drugs	66	103.3	11.9	13	3.2
Exxon Mobil (XOM)	Oil & gas	83	388.6	21.2	10	2.7
General Dynamics (GD)	Aerospace & defense	64	23.2	14.2	9	3.1
Oracle (ORCL)	Software	29	141.8	17.2	11	0.8
Western Union (WU)	Financial services	17	10.2	28.4	10	2.4

Data as of 7/10/12. *Based on forecast earnings for current fiscal year.

SOURCES: BLOOMBERG; MORNINGSTAR; THOMSON REUTERS

For more stock analysis from Jack Hough, visit SmartMoney.com.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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XIAFLEX can cause serious side effects including tendon rupture (break), ligament damage, nerve injury or other serious injury of the hand, or allergic reaction.

Call your doctor right away if you have trouble bending your injected finger after the swelling goes down, pain, tingling, numbness, or problems using your treated hand or if you get hives, swollen face, breathing trouble, or chest pain.

It's important to tell your doctor about a prior allergic reaction to XIAFLEX, or if you have a bleeding problem or use a blood thinner.

Common side effects include hand swelling, bruising, injection site reaction or bleeding, and pain.

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

Please see Important Product Information on the following page.

For more information, call 1-877-XIAFLEX or visit XIAFLEX.com

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Important Product Information

XIAFLEX® (Zī a flex)
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What is the most important information I should know about XIAFLEX?

XIAFLEX can cause serious side effects, including:

1. **Tendon rupture or ligament damage.** Receiving an injection of XIAFLEX may cause damage to a tendon or ligament in your hand and cause it to break or weaken. This could require surgery to fix the damaged tendon or ligament. Call your healthcare provider right away if you have trouble bending your injected finger (towards the wrist) after the swelling goes down or you have problems using your treated hand after your follow-up visit.
2. **Nerve injury or other serious injury of the hand. Call your healthcare provider right away** if you get numbness, tingling, or increased pain in your treated finger or hand after your injection or after your follow-up visit.
3. **Allergic Reactions.** Allergic reactions can happen in people who take XIAFLEX because it contains foreign proteins.

Call your healthcare provider right away if you have any of these symptoms of an allergic reaction after an injection of XIAFLEX:

- hives
- swollen face
- breathing trouble
- chest pain

What is XIAFLEX?

XIAFLEX is a prescription medicine used to treat adults with Dupuytren's contracture when a "cord" can be felt.

In people with Dupuytren's contracture, there is thickening of the skin and tissue in the palm of your hand that is not normal. Over time, this thickened tissue can form a cord in your palm. This causes one or more of your fingers to bend toward the palm, so you can not straighten them.

XIAFLEX should be injected into a cord by a healthcare provider who is skilled in injection procedures of the hand and treating people with Dupuytren's contracture. The proteins in XIAFLEX help to "break" the cord of tissue that is causing the finger to be bent.

It is not known if XIAFLEX is safe and effective in children under the age of 18.

What should I tell my healthcare provider before starting treatment with XIAFLEX?

XIAFLEX may not be right for you. Before receiving XIAFLEX, tell your healthcare provider if you:

- have had an allergic reaction to a previous XIAFLEX injection.
- have a bleeding problem.
- have any other medical conditions.
- are pregnant or plan to become pregnant. It is not known if XIAFLEX will harm your unborn baby.
- are breastfeeding. It is not known if XIAFLEX passes into your breast-milk. Talk to your healthcare provider about the best way to feed your baby if you receive XIAFLEX.

Tell your healthcare provider about all the medicines you take, including prescription and non-prescription medicines, vitamins, and herbal supplements.

Especially tell your healthcare provider if you use:

a blood thinner medicine such as aspirin, clopidogrel (PLAVIX®), prasugrel hydrochloride (EFFIENT®), or warfarin sodium (COUMADIN®). If you are told to stop taking a blood thinner before your XIAFLEX injection, your healthcare provider should tell you when to restart the blood thinner.

How will I receive XIAFLEX?

Your healthcare provider will inject XIAFLEX into the cord that is causing your finger to bend.

After an injection of XIAFLEX, your affected hand will be wrapped with a bandage. You should limit moving and using the treated finger after the injection.

Do not bend or straighten the fingers of the injected hand until your healthcare provider says it is okay. This will help prevent the medicine from leaking out of the cord.

Do not try to straighten the treated finger yourself.

Keep the injected hand elevated until bedtime.

Call your healthcare provider right away if you have:

- signs of infection after your injection, such as fever, chills, increased redness, or swelling
- numbness or tingling in the treated finger
- trouble bending the injected finger after the swelling goes down

Return to your healthcare provider's office as directed on the day after your injection. During this first follow-up visit, if you still have the cord, your healthcare provider may try to extend the treated finger to "break" the cord and try to straighten your finger.

Your healthcare provider will provide you with a splint to wear on the treated finger. Wear the splint as instructed by your healthcare provider at bedtime to keep your finger straight.

Do finger exercises each day, as instructed by your healthcare provider.

Follow your healthcare provider's instructions about when you can start doing your normal activities with the injected hand.

What are the possible side effects of XIAFLEX?

XIAFLEX can cause serious side effects. See "What is the most important information I should know about XIAFLEX?".

Common side effects with XIAFLEX include:

- swelling of the injection site or the hand
- bleeding or bruising at the injection site
- pain or tenderness of the injection site or the hand
- swelling of the lymph nodes (glands) in the elbow or underarm
- itching
- breaks in the skin
- redness or warmth of the skin
- pain in the underarm

These are not all of the possible side effects with XIAFLEX. Tell your healthcare provider about any side effect that bothers you or does not go away.

Call your doctor for medical advice about side effects. You may report side effects to the FDA at 1-800-FDA-1088.

General information about XIAFLEX

Medicines are sometimes prescribed for purposes other than those listed here. This is a summary of the most important information about XIAFLEX. If you would like more information, talk to your healthcare provider. You can ask your healthcare provider for information about XIAFLEX that is written for health professionals.

For more information visit www.XIAFLEX.com or call 1-877-663-0412.

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Higher Learning

Budget cuts, increased regulations and changing technology are testing many education-related firms. Which stocks make the grade? By Tania Karas

BUY

New Oriental Education & Technology

(EDU, $23)

A GROWING MIDDLE CLASS in China translates to more parents investing in extra tutoring for their kids, analysts say—and that bodes well for private-education firm New Oriental Education & Technology Group. The Beijing company, whose stock has almost quadrupled since it was listed on the New York Stock Exchange in 2006, is one of China's largest providers of foreign-language training and test-prep courses. It has opened 140 new learning centers over the past year. The company's recent initiative to decrease class sizes and increase one-on-one tutoring is not as profitable as a large-class model, but if it works, the move might bring wealthier, higher-paying customers, says Brandon Dobell, education services analyst for William Blair.

61% Decline in Apollo stock since 2004 peak

SELL

Apollo Group

(APOL, $32)

THIS FOR-PROFIT COLLEGE, which operates the University of Phoenix, generates most of its revenue from evening and online courses for working adults. But the Phoenix firm's 2012 fiscal third-quarter earnings were down 37 percent from the same period in 2011, and analysts don't expect a turnaround anytime soon. Traditional colleges and universities are offering more online courses. At the same time, regulatory changes to the way Apollo's recruitment counselors are compensated have also depressed student enrollment, says Jarrel Price, education services analyst for Height Analytics. A spokesperson for Apollo says the firm is adding more career-planning services and strengthening relationships with employers to help students compete in the job market.

HOLD

Pearson

(PSO, $19)

SHARES OF THIS TEXTBOOK MAKER have held steady over the past year. The London firm, which also trades on the New York Stock Exchange, has recently pushed into digital textbooks and standardized testing. But many states are cutting education spending and could delay purchases of new textbooks, says Alex Wisch, equity analyst for S&P Capital IQ. The firm says its new initiatives will keep it profitable even if it sells fewer textbooks.

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PLAN

Job Market | 40
How freelancing is fast becoming "e-lancing."

Tuition Battle | 44
A-list colleges are fighting for your dollars.

Smart Ideas | 48
Revealed: Small-business survival secrets!

Photograph by Mark Peterson for SmartMoney

Go Temp Yourself

Online consulting sites are enticing boomers with offers of freelance gigs. But can the jobs pay professionals the wages they want? By Anne Kadet

MANY FOLKS DREAM of retiring early from the nine-to-five and going freelance. And these days, anyone making that transition will likely wind up considering contracting services—fast-growing firms such as oDesk, Guru.com and Elance—that put the hiring process online.

Once a niche industry catering to folks in IT and graphic design, these services have since gone mainstream, gaining favor with more employers in fields like law, marketing and accounting. Elance says the number of new businesses adopting online hiring more than doubled in 2011. The firm's e-freelancers, meanwhile, usually work at home and set their own hours, and many are experienced pros: Boomers account for 30 percent of online freelancers, according to independent consulting platform MBO Partners, and these free birds tend to be highly educated and more satisfied with independent work than their younger counterparts.

But online, these people aren't just competing with Sally from marketing; they're up against Dakshina in New Delhi and Boris in Belgorod. "The competition is international, and the wage rates can be completely different," says Sara Horowitz, founder and executive director of the Freelancers Union. The result: Many budding consultants find themselves accepting jobs at subpar rates (average hourly pay on these sites can range as low as $14) or losing out on bids.

Still, employment experts and e-lancing veterans say it's possible to earn a professional rate online. Freelancers can boost their credibility—as well as their pay—by taking the sites' free skills tests, available in fields ranging from Twitter development to Mandarin translation; employers see the tests as proof of a candidate's prowess. Self-promotion helps, too. Khrystyne Robillard-Smith, a graphic designer who specializes in corporate-identity projects, joined Elance in 2008 after she was laid off from her job as a creative director. At first, she took low-paying gigs (designing a teen-dance flier, for example) to garner experience and client ratings, but she didn't want to get pigeonholed as someone who worked for cheap. After analyzing the profiles of competitors, Robillard-Smith took a new tack, beefing up her online portfolio and crafting bids that explained, in great detail, why her experience and awards made her a better hire than her rivals. These days, she says, her average rate hovers around $70 an hour, and Elance employers come directly to her with proposals—she hasn't had to bid for a job since 2010. Robillard-Smith's trajectory isn't uncommon, says oDesk CEO Gary Swart: The average contractor increases her hourly rate by 60 percent the first year and close to 190

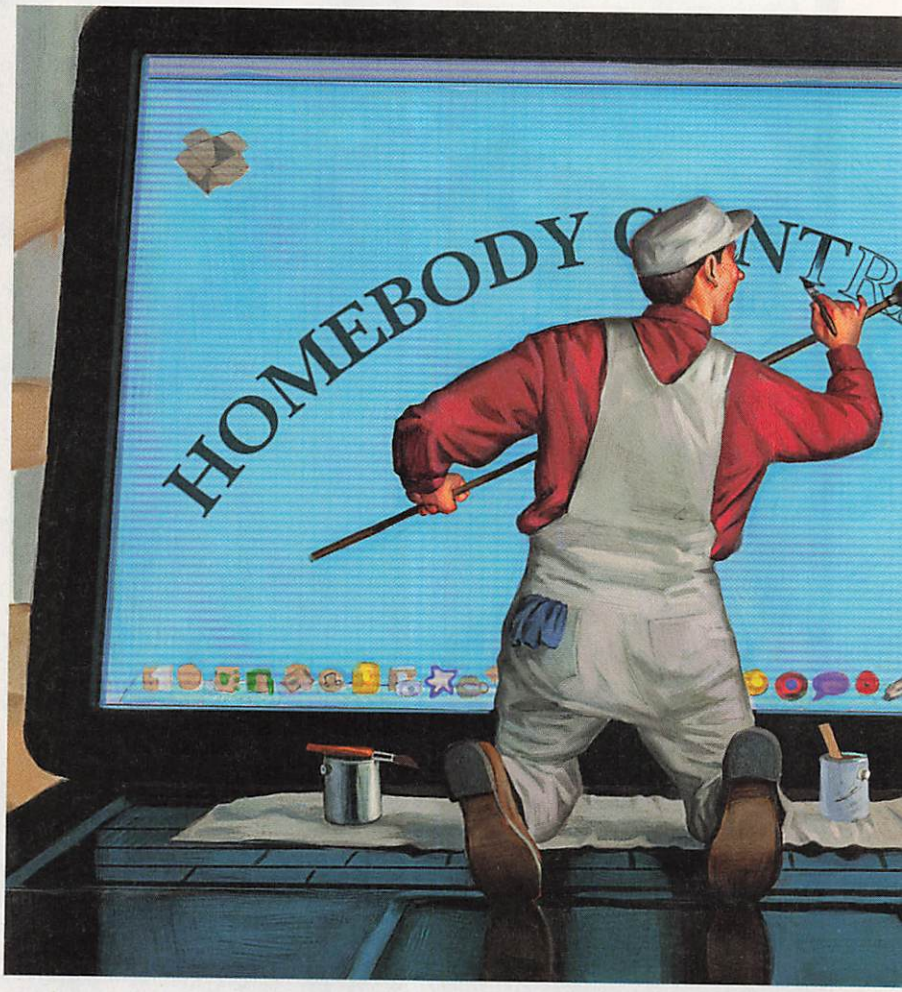
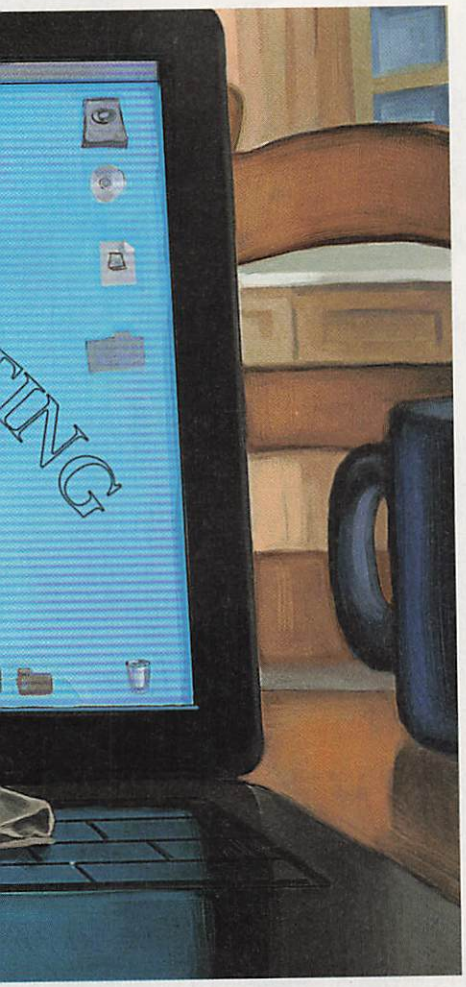


Illustration by Matt Collins for SmartMoney

percent over three years.

The real strength of these sites, according to their users, is that they help new consultants land gigs without spending as much time on self-marketing as they would if they were pitching themselves face to face. As small business conference producer Tory Johnson notes, the sites can help folks gain experience in a new field. And for those who are just looking to keep a hand in the business world, online freelancing can be convenient and flexible, which explains its popularity among retirees. Jim Nayor, a 66-year-old former senior VP at a global advertising agency, earns $35 an hour—pocket change for entertaining his nine grandchildren—by helping small businesses with branding and marketing through oDesk. "It keeps me out of trouble," he says, "and out of my wife's hair."



PERFECT PORTFOLIO ILLUSTRATIONS BY QUICKHONEY FOR SMARTMONEY

Perfect Portfolio

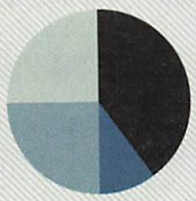
34-year-old newlyweds

A large chunk of your income is likely going into setting up your new home. But experts say you should put as much money as you can afford into your retirement accounts. Jason Jenkins, the president of Assetwise Investments in San Diego, now favors large, dividend-paying U.S. stocks. A smaller portion can be invested in short-term bond funds, he says, and keep some cash on hand so you won't have to run up your credit cards.

- 60% U.S. stocks
- 15% Foreign stocks
- 10% Bonds
- 15% Cash

42-year-old couple; one spouse is unemployed

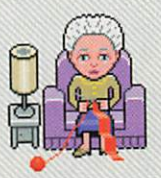
Going from two incomes to one can be a tough balancing act. You need more money in cash and short-term bonds than the typical investor your age. You can boost your income with dividend stocks, says Lee Rosenberg, president of American Investment Planners in Jericho, N.Y. He suggests divesting some foreign stocks and keeping the fixed-income portion of your portfolio in a fund that owns bonds with one- to three-year maturities.



- 40% Stocks
- 10% Alternatives
- 25% Bonds
- 25% Cash

75-year-old widow

Now that you're fully ensconced in retirement, pros say, you might want to supplement your income with a guaranteed investment like an annuity. Experts recommend keeping part of your bond portfolio in Treasury inflation-protected securities. Although inflation isn't a problem now, it could reduce your spending power over time if you're living on a fixed income.



- 15% Stocks
- 45% Guaranteed investments
- 25% Bonds
- 15% Cash

Note that these allocations may shift as market conditions change. To see updates on our portfolios, including recommended asset mixes for other stages of life, go to smartmoney.com/perfectportfolio.

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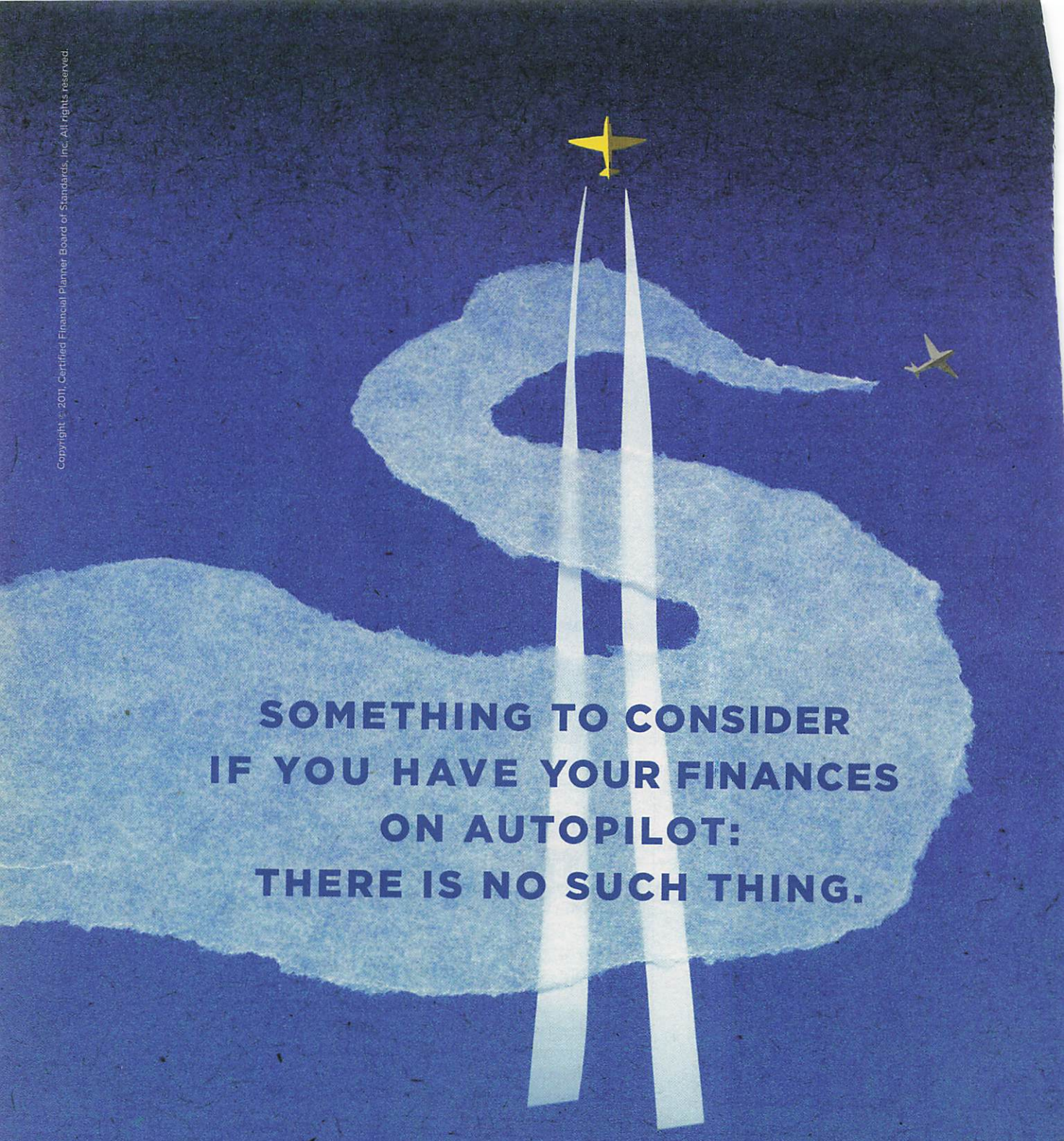

SOMETHING TO CONSIDER IF YOU HAVE YOUR FINANCES ON AUTOPILOT: THERE IS NO SUCH THING.

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THE COLLEGE FINANCIAL PLANNING PUZZLE: PUTTING THE PIECES TOGETHER

A child's college education is one of the biggest expenses most families will confront — and the potential payout could be eye-popping as tuition costs continue to increase year after year. The College Board pegs the average annual tuition at in-state public, four-year institutions at $8,244, up 8.3 percent from the 2010-11 calendar year. Out-of-state public tuition averages $20,770, 5.7 percent higher than last year, while tuition at private non-profit, four-year colleges is $28,500, on average, up 4.5 percent.

When you add in college fees plus room and board, the costs quickly pile up — and it may look daunting, especially when parents are saving for their own retirement simultaneously. Fortunately, there is an array of funding options from state-sponsored plans and Coverdell accounts to grants and subsidized and unsubsidized loans. Most parents use more than one financial vehicle to get to their goal. Grandparents may also be involved, particularly as they seek to reduce their taxable estates and give more to family members. Tuition fees paid directly to a college or university are exempt from gift taxation or reporting — even if these fees are above the annual tax-free amount allowed for gifts.

There's no cookie-cutter solution to smart college financial planning — it's a process that is individualized to each family, and one that Certified Financial Planner™ professionals understand very well. A CFP® professional can walk you through the entire process, which starts with estimating future tuition costs. The next step is helping you navigate the funding choices to the best advantage.

For instance, pre-paid 529 tuition plans accumulate earnings free of any federal income taxes to attend specified colleges and universities. Parents have peace of mind knowing they can lock in the tuition at current rates, which means the investment is guaranteed to increase in value at the same rate as college tuition.

With a 529 college savings plan, parents choose among several investment options for their contributions, which the plan invests on their behalf. Like a pre-paid tuition plan, a savings plan allows earnings to accumulate tax-free. It differs from a pre-paid plan in that there is no lock on tuition rates and children can use the monies to attend any schools they choose. Investments are also subject to market conditions, so there may be an opportunity to reap greater returns, too. At the same time, there is also the possibility a savings plan may lose value, depending on the investments in the plan.

While these plans can be great investment tools, they are not for everyone. They may not make sense for older children, for example, and they have gift-tax implications that may conflict with a family's other gift and estate plans.

A CFP® professional can outline the pluses and minuses of college savings programs and incorporate those that best serve your needs into a comprehensive strategy, which may also include loans available from the federal government and private lenders. The need to borrow to support college costs is rising, according to the U.S. Department of Education's "The Condition of Education: 2012" report. Between 2006-7 and 2009-10, the percentage of first-time, full-time undergraduates receiving financial aid increased from 75 percent to 85 percent at all four-year colleges, the report states. For student loans specifically, in 2009-10, 86 percent of students at four-year for-profit schools, 63 percent at private non-profits and 50 percent at public institutions took out student loans.

Part of smart college planning is developing a plan for repayment to ease the debt burden for new graduates and their parents once loans become due. For example, bundling private and public student loans together from the outset may result in losing certain advantageous repayment options on federal student loans at a later date.

GETTING STARTED

CFP® professionals can help develop a college funding strategy that works within the context of a broader financial plan — one that takes into account other family financial objectives including retirement. These professionals are personal financial planners who have completed a rigorous educational and certification program, have extensive financial planning experience, and are held to an ethical standard that puts your financial interests above their own.

FOR MORE IDEAS ON HOW TO GET STARTED SAVING FOR YOUR CHILD'S EDUCATION AND TO FIND A CFP® PROFESSIONAL, GO TO LETSMAKEAPLAN.ORG.

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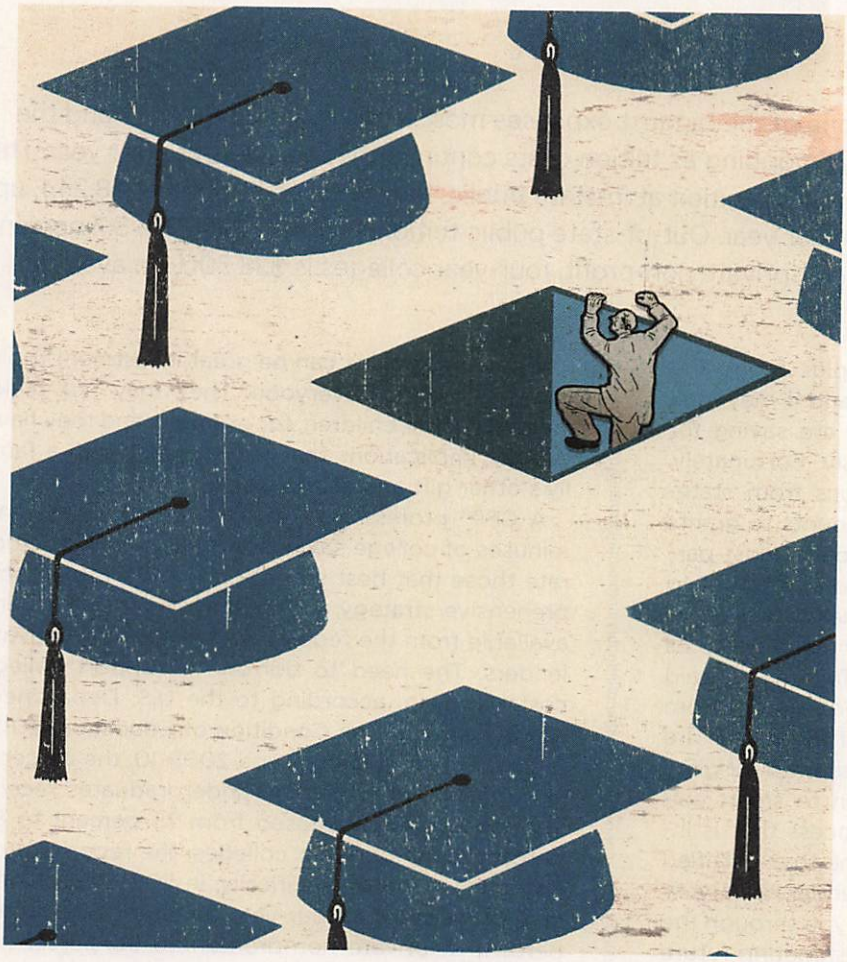

Diplomas at a Discount

With some private colleges bumping up their financial aid, good old State U. is no longer always the cheapest option. By Anna Prior

EARLIER THIS year, attending a public university seemed like a no-brainer for Nicole Barker. The aspiring Egyptologist from Evanston, Ill., had gotten into the University of Illinois—and her top private choice, Bryn Mawr, had a sticker price of $56,000 a year. But Bryn Mawr counterpunched, offering almost $29,000 a year in loan-free aid. That made the total cost comparable with what Illinois charged—even at in-state rates. "We were surprised, and thrilled," says Nicole's mother, Danielle Schultz.

Thrills like these may soon become less surprising. The tuition gap between public and private colleges has narrowed, with public tuition rising about 120 percent in the past decade, almost twice as fast as private. And with more families balking at the price, some private schools are now dipping into their endowments to lure top students away from state-school competition. (Illinois says its admitted students often see competing offers from "well-endowed private schools.") For many families, says Lynn O'Shaughnessy, the author of *The College Solution,* the assumption that state schools are always cheaper is "just not true."

Such bidding wars aren't entirely new: A few Ivy League schools have offered "no loan" aid for middle-income families for several years. But observers say the generosity is now quite pronounced at smaller liberal arts schools, whose Ivy-like prices don't necessarily confer top-tier salary clout on the job market. Jenny Rickard, Bryn Mawr's chief enrollment officer, says 69 percent of the student body got grant-based aid in 2011, averaging just under $30,000 per student. Public schools can seldom make similar offers, because they have to cope with state budget cuts. At the University of Michigan, out-of-state tuition now tops $30,000 a year, and the school says per-student aid from the state has shrunk more than 50 percent over the past decade.

Still, even at the most generous private schools, 30 to 40 percent of students get no aid at all. So what kind of factors can work in a student's favor? Experts advise families to track down schools that award a lot of "merit aid"—the nonprofit College Board has a Web database of such stats. Students should also aim for schools where their grades and test scores fall into the top 25 percent of the applicant pool, says Deborah Fox, a San Diego financial planner specializing in planning for college. After all, says Fox, "the most highly desirable students get the best packages."

$25,200
Average student-loan debt, class of 2010

ILLUSTRATION BY DAN PAGE

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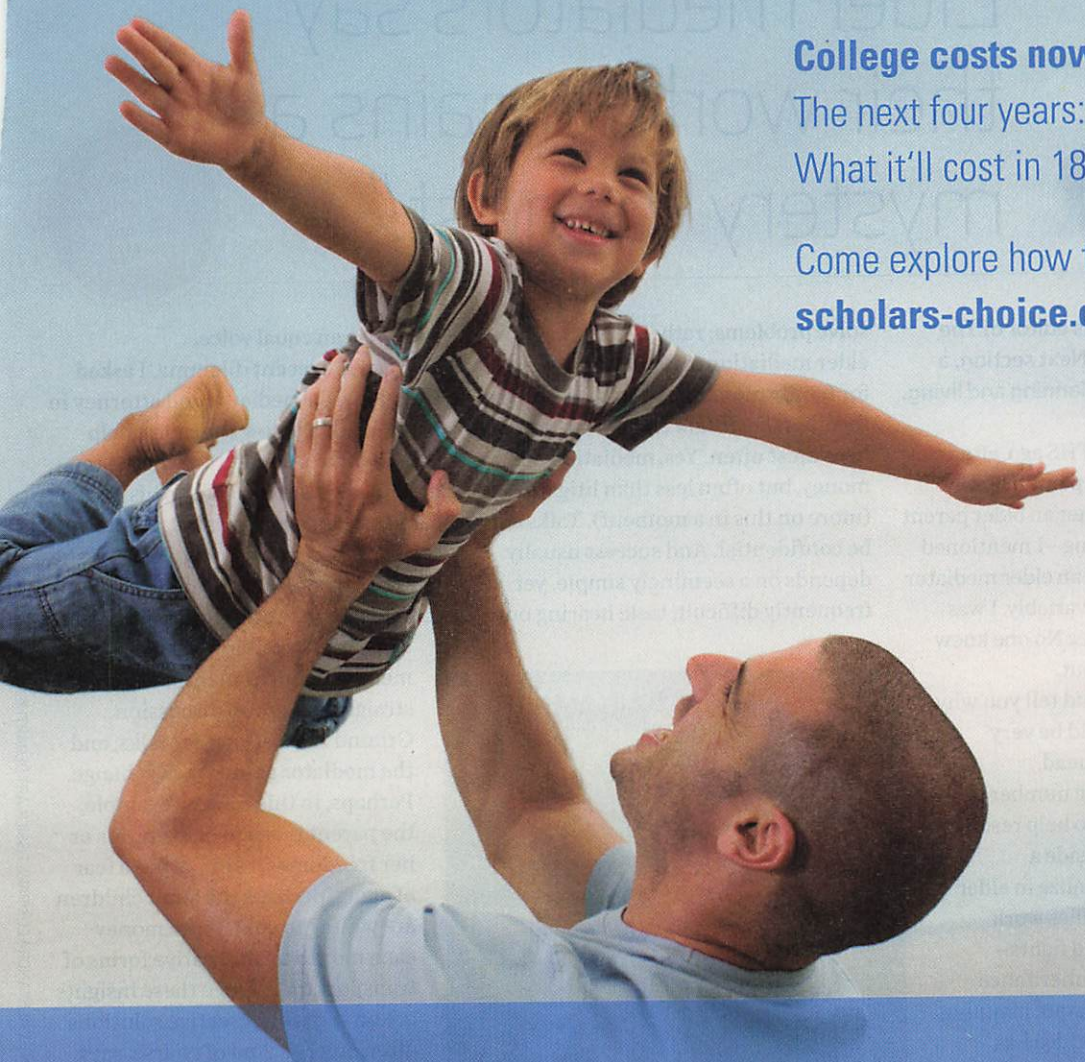

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te: For a 4-year public (in-state) college, the average annual cost of attendance is $21,447. With the hypothetical 5.0% rate of inflation, total average expenses are $97,061 and $222,466 in 4 and 18 ars, respectively. Source: © 2012 The College Board, collegeboard.com.

ased on the average annual cost of attendance of $42,224 for a 4-year private college adjusted for a hypothetical 5.0% rate of education inflation. Source: © 2012 The College Board, collegeboard.com.

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"Elder mediators say their work remains a mystery to most."

80% Mediated cases that reach agreement

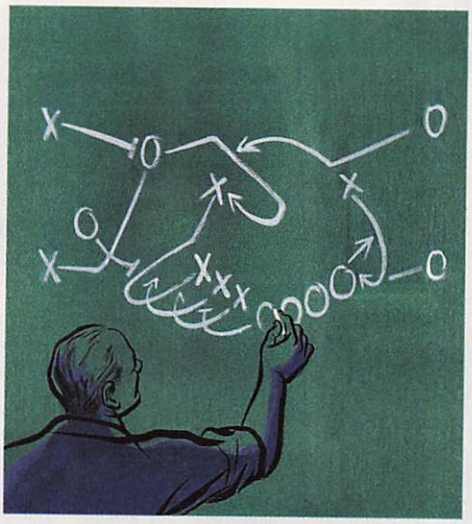
GLENN RUFFENACH is editor of *The Wall Street Journal's* Next section, a guide to retirement planning and living.

SEVERAL MONTHS ago, after wrestling with a painful family problem—whether an older parent should continue driving—I mentioned to several friends that an elder mediator might have helped. Invariably, I was met with puzzled looks: No one knew what I was talking about.

Let me explain—and tell you why these individuals could be very helpful in the years ahead.

A small but growing number of mediators (people who help resolve disputes, typically outside a courtroom) now specialize in elder affairs. They help families work through concerns—and fights—involving caregiving, inheritance, living arrangements, estate planning and related issues. The idea has been around for several years. The Association for Conflict Resolution, a trade organization for mediators, added an elder-decision-making group in 2009. Demographics, of course, explain the development: The 85-plus age group is the fastest-growing segment of the population. Still, elder mediators say their work remains a mystery to most. "People make the assumption, 'If I have a problem, I need an attorney,'" says Barbara Sunderland Manousso, founder of a mediation network based in Houston.

First, a few basics. Mediators don't solve problems; rather, in the case of elder mediation, they pave the way for family members to solve problems together. *Facilitate* is the word you hear most often. Yes, mediation costs money, but often less than litigation (more on this in a moment). Talks can be confidential. And success usually depends on a seemingly simple, yet frequently difficult, task: hearing out and weighing others' viewpoints.



Indeed, adult children may find themselves united on a particular issue, only to face an unyielding parent. But often the parent simply wants to be heard. "There's a tendency to ignore—or not even include—the elder" in talks, says Dana Curtis, founder of Elder Mediation Group in Sausalito, Calif. The mediation process, ideally, gives everyone an equal voice.

Take my recent dilemma. I asked Cara Raich, a mediator and attorney in New York City, how she might help a family that's divided on whether an older parent should give up his or her car keys. Her goal, she says, is not to get the parent to stop driving. Instead, she tries to find out what's important to each player in the debate. A mediator can begin by talking with family members individually or can move straight to a group discussion. Ground rules are set for talks, and the mediator guides the exchange. Perhaps, in this car-key example, the parent is afraid of losing his or her freedom—or simply has a fear of aging; perhaps the adult children are willing to contribute money each month to alternative forms of transportation. Once these insights are on the table, creative solutions often emerge. And of course, says Raich, "if something doesn't work, you can come back and try again."

Do you get along with your siblings? I hope so. That said, elder mediation is sometimes called adult-sibling mediation, says Joy Rosenthal, also a mediator and attorney in New York. While sisters and brothers typically know each other (and how to push each other's buttons) well, they rarely have occasion to work together to solve problems. A parent in need of help can set off some nasty disagreements.

Alexandria Skinner, a mediator and attorney in Columbia, S.C., describes a

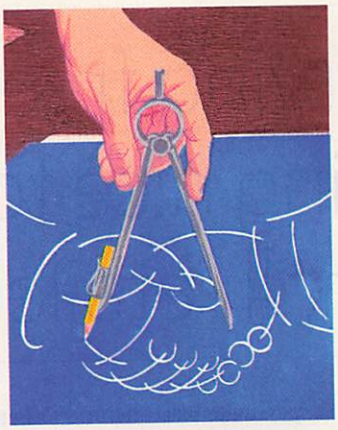
For more ideas on preparing for a healthy retirement, go to SmartMoney.com.

ILLUSTRATIONS (FROM LEFT) BY ALEX NABAUM; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

case where several siblings, living in different parts of the country, were at odds over the best way to care for their ailing father. One felt he was still able to live at home; a second advocated for a move to an assisted-living setting; a third argued that he be placed out of state. To make matters worse, the siblings distrusted one another's motives—in part because a third party had been sowing dissension. In several mediation sessions, over a period of months, the siblings, led by Skinner, brokered an agreement. First, they would confide more in one another and less in outsiders. (Comments from a third party about any one sibling would immediately be shared with all.) Second, they would do the necessary homework—together—to determine the best arrangements for their dad. They eventually agreed on assisted living, but by the second session, they were already working as a team. "I tell people: If you can agree to walk in the room and begin talking, you're 95 percent of the way there," Skinner says.

The cost? Janet Mitchell, a mediator in Fort Wayne, Ind., and director of EldercareMediators.com, says charges of $150 to $200 an hour are common. If that sounds steep, consider that the cost for a two-hour session split among, say, five family members, would be $60 to $80 each (and compare that with attorney fees). You can begin looking for a specialist and other resources at the Association for Conflict Resolution (acrnet.org) and Mediate.com.

Let me end with a caveat: Mediation is hard work. Family members today often are scattered across the country; siblings frequently are pigeonholed in decades-old roles (the pretty one, the smart one); agreements normally aren't binding in the eyes of the law, unless an attorney drafts a contract; and happy endings aren't guaranteed. That said, "the constant refrain we hear from parents is 'I just want my children to get along,'" says Elder Mediation Group's Curtis. A commitment to addressing problems as a family, she says, "can minimize a lot of suffering."



CAN WE TALK?

Do you need a litigator—or a mediator? Consider the differences:

Litigation	Mediation
Can take months	Can begin right away
Often is public	Is typically confidential
Has a formal structure	Tends to be informal
Involves attorney fees and court costs	Avoids the costs of hearings, discovery and trial

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"Serving free ice cream and being nice to jerks: How small retailers survive."

DYAN MACHAN, a senior writer at SMARTMONEY, can be reached at dmachan@smartmoney.com.

IT'S THE MOST familiar refrain in business: Sooner or later, the big and global devour the small and local. But why do some little, independently owned stores manage to stay glued to their foundations despite the cyclone of competition from chain stores and the Web? What can one glean from survivors besides clichés about customer service? We talked to a few, and extracted these tips.

The first survival rule: Send in the clowns. The management buzzword is *experiential,* but we call it the Walt Disney approach. Schaefer's TV and Appliance, in Lincoln, Neb., sits across the street from a Best Buy and minutes from other giants. But according to president Ron Romero, his store offers a better time. Schaefer's has constructed a model house inside the store, where buyers can configure their own mind-blowing sound systems. Though it sounds like an energy nightmare, the store also has a row of 16 working dishwashers to test-drive, and for extra fun, you can stuff towels into another whole corridor of washers and dryers. Not fun enough? In its Reading, Mass., store, Jordan's Furniture has a jelly bean Gen. George Washington on horseback, an ice cream shop and a trapeze school. That might sound silly, but this kind of silliness—and the customer loyalty it inspires—helped persuade Warren Buffett's Berkshire Hathaway to buy the Jordan minichain in 1999, for a reported $225 million.

"Differentiate" is the marching order Doug Fleener, a Lexington, Mass., retail consultant, gives his clients. "Otherwise," he says, "you're just caught in a commodity war"—the kind of who's-the-cheapest battle a small retailer can never win. In contrast, some 86 percent of U.S. adults say they'll pay more for a better customer experience, according to a 2012 survey.

28% Small retailers' share of consumer spending

It's the unquantifiable *more* that many small businesses stake their tents to. Baby gear, for example, is a particularly cutthroat business, dominated by chains that buy at volume discounts and that often use toys as loss leaders to lure customers. So it's cool that Magic Beans has managed to take territory in the Boston area with an arsenal that includes discounted car-seat installation, a staff who knows the difference between a sling and a Winkel, and frequent customer events. "Drool," the baby expo that cofounder Sheri Gurock held at her flagship store this year, attracted 75 vendors and 600 customers—75 percent of them new to the store. "The critical part is to establish trust and expertise," she says. "The chains don't do that well."

Even if your business has fewer bells and whistles, it pays to follow rule No. 2: Always engage. Local hardware stores have seen their numbers dwindle amid inroads by Lowe's and Home Depot. But those that have thrived, like Dave's Ace Hardware in Milton, Wis. (independently owned though affiliated with the Ace cooperative), do so by connecting with customers in ways the big chains can't. Owner Dave Warren pays for his salespeople to buff up their social skills with Dale Carnegie training, answers his Facebook messages promptly and is even helpful to, uh, jerks. Once a customer complained that "the store sold him the wrong stain" for

For more insights about start-ups, visit smartmoney.com/small-business.

ILLUSTRATION BY DANIEL HOROWITZ

his camper deck. Warren went out to the person's trailer park and found that he'd already stained the entire deck—so the store replaced all the boards in the deck. "He was a loyal customer after that," Warren says. Another hardware survivor, Miller Industrial Supply, of Elk Grove Village, Ill., would earn a place in the extreme retailing Olympics. When a snowstorm was about to hit in 2011, owner Bob Miller slept at his store to make sure his doors would be open. He'll also open after-hours if a customer has an emergency. "We save our customers' butts," he says.

To an outsider, that can seem like overkill; to businesses that practice it, it's more like an ingrained culture of integrity. And Barbara Melera believes it can help firms stick around. Melera is the owner of D. Landreth Seed, among the oldest businesses in the country: It was founded in 1784, brought zinnias to America and counts Thomas Jefferson, James Madison and George Washington among customers in its original Philadelphia store. Melera cites an incident in 1847 when the company ran out of seed catalogs. Landreth issued an apology and a promise that it wouldn't happen again. By 1860, it was paying to print 600,000 copies to make sure it wouldn't run out.

Rule No. 3 of survival? It's unlikely to be proclaimed by any management guru. Carl's Drug Store, in Greencastle, Pa., is the country's oldest continuously operating pharmacy—founded in 1825. It's a tough business for entrepreneurs: There are about 23,000 independent pharmacies today, down from 40,000 three decades ago. Still, owner Frank Ervin says that "business is steady enough" (revealingly adding, during an interview, "Hurry up, Honey, I got three customers!"). Ervin bought the store in 1974 and says he hasn't really changed his product mix in any special way. So what has enabled him to compete? As Ervin pauses to answer, we lean in closely to hear this sacred truth: "parking." Carl's expanded its lot when it moved to a new location eight years ago. "Made a big difference."

HOW TO BEAT THE BIG GUYS

Small retailers say these rules of thumb have helped them survive in a chain-store world.

▶ **Spend on Promotions:** Putting a petting zoo in the parking lot, and advertising it on TV, might get a retailer lampooned on YouTube—but it'll keep the store competitive. Consultant Doug Fleener says that creating a distinctive experience can help small businesses make up for the fact that they can't compete with national chains on price.

▶ **Go the Extra Mile:** Big-box stores are generally less likely to offer the kinds of "we'll fix anything, anytime" guarantees that many customers crave. Elk Grove Village, Ill., hardware-store owner Bob Miller says his policy of opening his shop after-hours for emergencies and during snowstorms has been a loyalty builder.

▶ **Remember the Golden Rule:** Doing unto others as you'd have them do unto you can mean more to small businesses than to large ones, retail veterans say. A major chain can survive some defections and bad word-of-mouth; not so the corner drugstore.

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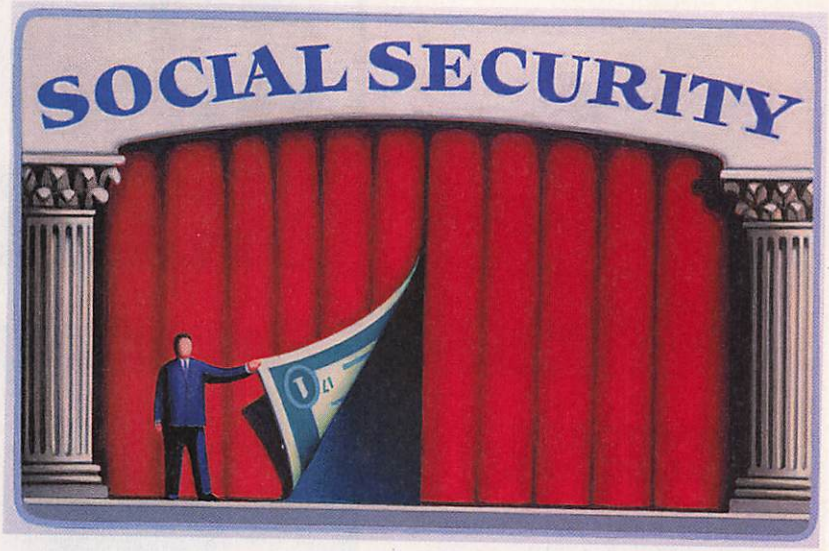

Q I'm 58 years old and twice widowed. Can I collect Social Security benefits on behalf of my first wife? If so, at what age can I start?

—Eddy Berk, Hot Springs Village, Ark.

Generally speaking, Social Security benefits are pretty individualized calculations. In your case, the ability to collect widower's benefits on your first wife depends on when you remarried. According to a Social Security Administration spokesperson, you may qualify for her benefits if you tied the knot again after age 59 (or after age 49, and you were disabled at the time). The ability to collect widower's benefits also depends on the length of a person's marriage (it must be at least nine months) and how long the first wife worked. It's best to contact your local Social Security Administration office to clarify how the rules would apply to your specific scenario.

Got a question? Submit it at smartmoney.com/ask and our reporters will try to answer it. A full archive of past questions and answers can be found there as well.

On my financial adviser's suggestion, I bought whole life insurance as an investment, but being single, young and healthy, I'm rethinking it now. Should I keep the policy, or discard it and pay the penalties?

—Claudia Bernett, New York City

When it comes to insurance, buyer's remorse can be expensive. Indeed, experts say, one of the biggest disadvantages of a whole life policy is the high cost of canceling it during the surrender period (typically the first five to eight years after purchase). You'll want to map out all the costs associated with canceling now—such as penalties and taxes—and see how big a chunk you'd lose by opting out. If it's a significant amount, it might make sense to ride out the surrender period by choosing the policy's investment option with the lowest ongoing expenses, says Ben Birken, a certified financial planner with Woodward Financial Advisors in Chapel Hill, N.C. Another option, say experts: You can lower the policy value (and thus the premium) and take the saved money to invest elsewhere.

How does the Federal Reserve's buying and selling of bonds affect my bond funds and ETFs?

—Robert Giorgini, Hudson, N.H.

It's never a bad idea to keep an eye on the Fed's activities when you're monitoring your investments. But experts like LPL Financial fixed-income strategist Anthony Valeri say it's actually not that dominant a factor in the bond market. The biggest impact came when the Fed began selling short-term Treasurys in exchange for an equal amount of longer-term Treasurys, contributing to a nearly 30 percent bump for holders of long-term bond funds or ETFs last year. The more important things to watch, says Valeri, are the overall economy and the handling of Europe's debt situation.

ILLUSTRATION BY CHRISTOPHER ZACHAROW/CORBIS

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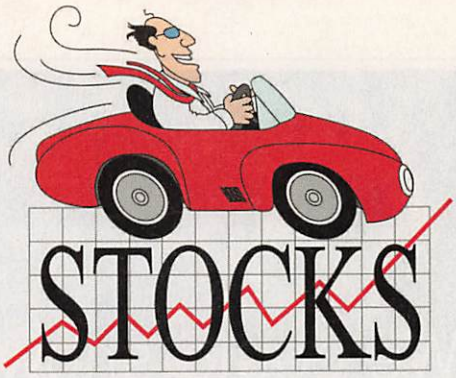

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How To Make Up To $500 In The First 59-Minutes Of Every Trading Day

BY JIM WALSH

MANNY BACKUS IS A soft-spoken chess prodigy obsessed with the stock market. Four years ago, he discovered a trading short-cut that produces up to $500 during the first hour the market opens. Stock market experts were amazed when the Los Angeles resident explained his secret to profitable stock picking even during a market crisis. Some questioned whether he gets illegal tips from an inside source. However, the facts show he developed an ingenious trading system that is...

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According to Mr. Backus, every morning a certain pattern happens during the first 59-minutes of trading. When you understand this predictable pattern, you can place one or two roundtrip trades between 9:30 a.m. and 10:30 a.m. Eastern Standard Time and make substantial gains. On most days you're done within 15-30 minutes. Then you close out all open positions and...

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The reason Mr. Backus is so accurate at picking stocks poised to make money is simple. He was born and raised in Peru and groomed to become a champion chess player. The task was made easier due to his certified genius I.Q. of 157. In his early teens, he became passionate about trading stocks. By the age of 19, he actively traded his own account with real money. A few years later, Mr. Backus, started figuring out how to...

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He spent over $40,000 creating a proprietary chart analyzing tool that reveals which stocks to buy or sell and the exact minute to enter and exit trades. Almost all the guesswork is taken out of the process. The results are nothing short of astonishing. Mr. Backus does not share his system with anyone. But does provide an exclusive alert service called First Hour Trading to traders who want to benefit from his uncanny ability to pick winning stocks. Subscribers are overjoyed since they get profit-rich trades without doing any of the work. They just copy his trades and often earn huge returns. Some have made as much as $2,000 in a single day. Mr. Backus is extending a Free Trial of his alert service to 575 SmartMoney readers. By accepting his invitation today you could...

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"YOU CAN MAKE ENOUGH MONEY IN THE FIRST HOUR OF TRADING TO TAKE OFF AND DO WHATEVER YOU'D LIKE FOR THE REST OF THE DAY." – MANNY BACKUS

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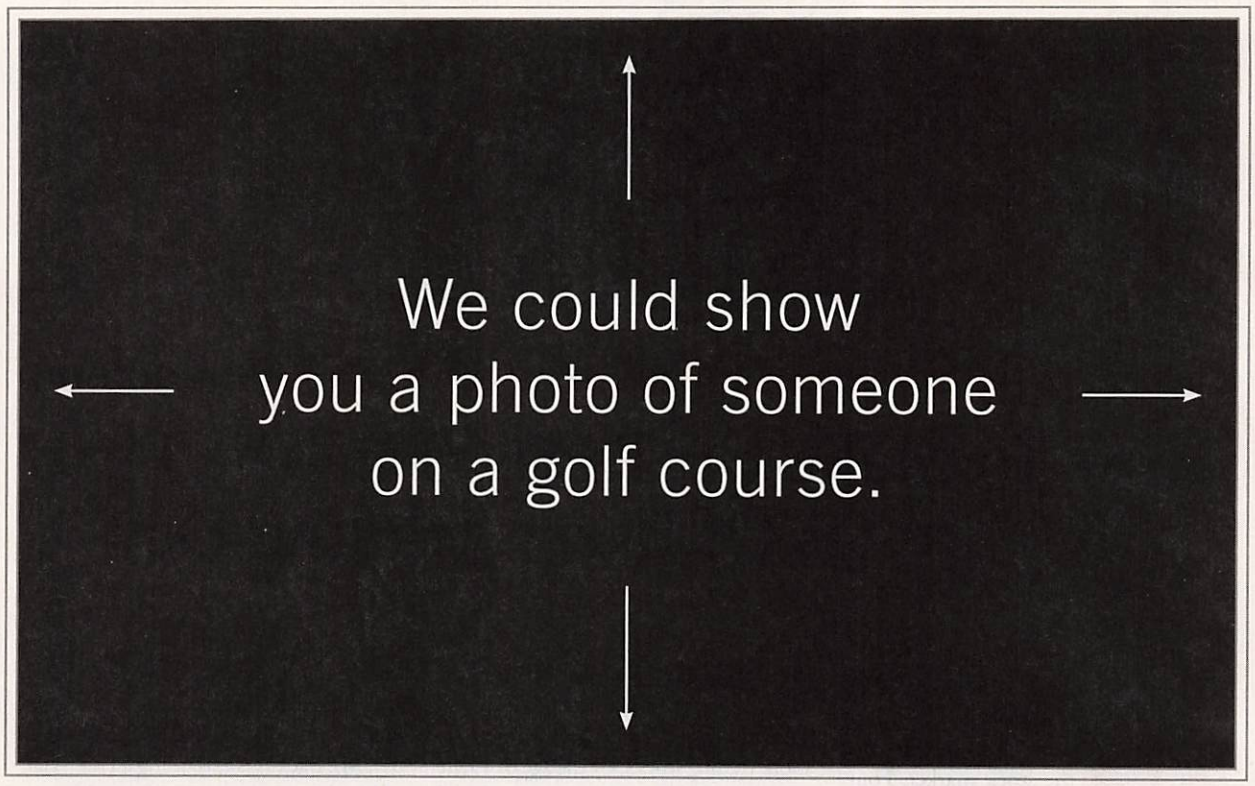

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Farewell

Like a noisome fog, the idea that your home can fall in value has rolled slowly across the country, first to the farm belt (the Midwest), then to the energy belt (the Southwest), then to the financial belt (the Northeast), and finally to the glitz belt (the West Coast).

So began the first feature article in the first issue of SmartMoney, 20 years ago—a story that, to a degree that might be considered eerie, feels sharply resonant today. To those loitering at the newsstand in April 1992, however, the article must have felt strangely foreign. In prose too poetic, and analysis too sharp, for a personal finance magazine, author Jim Carlton surveyed the wreckage of a nationwide real estate collapse—made all the more shocking by the "unprecedented speculative bubble" (ahem) that preceded it—and came to a startling conclusion: Des Moines, Iowa, was headed for a boom. And not just the beloved Raccoon City, it seemed. So, too, metropolises such as Tacoma, Wash., and Sioux Falls, S.D., were poised to become housing hot spots.

Ten years later, median home prices in the 10 cities SmartMoney highlighted were 67 percent higher, a rate of growth well above the national average. Even a decade after that—in the midst of another nationwide housing decline following an "unprecedented speculative bubble"—values in most have risen sharply.

A few pages later, Pulitzer Prize winner James B. Stewart (who that same year would publish *Den of Thieves*, his best-selling tale of Wall Street skulduggery) picked 10 stocks that readers could hold and forget about for the next decade. We'll spare you the full breakdown for now. But suffice it to say, the portfolio did blisteringly well. (One of those picks, Applied Materials, is up more than 2,000 percent since then.) A few pages later, Pulitzer Prize winner Ron Suskind slammed American Express over how little value its signature green card offered consumers.

It was an unusual magazine to say the least—oddly oversize, elegantly arted and obviously eager to throw a few punches. (Leveling a broadside against a likely advertiser such as AmEx was, to say the least, an uncommon strategy for a consumer magazine to try in its inaugural issue.) But what it would take a year or two, or 20, to discover was that SmartMoney was often well ahead of the curve. In the past two decades of reporting, 234 issues in all, we've made quite a few calls that justify the magazine's name. We've also, to be frank, really blown it. So we thought we'd spend a few of these last precious pages doing a pair of classic SmartMoney analyses: the first, on all that has happened in personal finance over the past two decades; and the second, on ourselves, turning a cold clear eye on what we've gotten right and wrong. You'll forgive us if we get a little misty at the reflection: After all, as a wise man once etched on a piece of glass: "Objects in mirror are closer than they appear."

SmartMoney
1992–2012

"The Rules of the Road"

When SmartMoney launched in 1992, the youngest baby boomers were in their 20s, the Dow was under 3500, the 401(k) was a novelty, and nobody had ever heard of a smartphone. Here are eight of the most important lessons we've learned along the way—the ones we're most confident will remain true 20 years down the road.

By SmartMoney Staff

WHO'S RESPONSIBLE FOR YOUR RETIREMENT? *YOU ARE.*

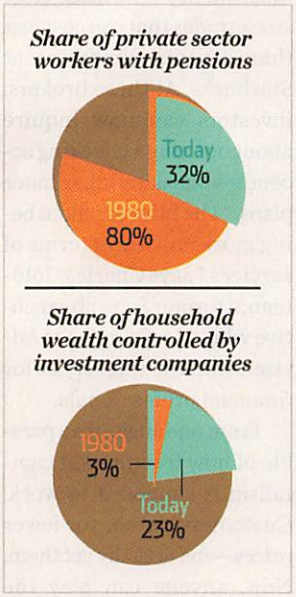
For generations, the rules of the workplace were simple: You said a hearty "Good morning" to the department secretary, you put in a solid eight hours at the office, and you retired at a reasonable age with a comfortable pension. But today, those rules have given way to a new order—one with voice mail and Outlook calendars in place of secretaries and a workday that seemingly never ends, thanks to the smartphone-driven era of nonstop connectivity.

But the biggest change of all may be the demise of the pension plan. With the help of new federal laws and provisions passed in the 1970s, private-sector companies have been gradually shedding the costs and risks associated with funding their employees' retirements—a helpful boost to their bottom lines, particularly at a time when Americans are living longer (average life expectancy has risen from 47.3 years in 1900 to 78.3 today). In the absence of those paycheck security blankets, more and more Americans are being asked to "own their retirement"—that is, to fund and manage accounts that will be used to cover their expenses in their postwork lives. And most are doing that through such complicated—and often flawed—do-it-yourself retirement vehicles as the 401(k) and the IRA.

For financial-service firms, of course, this migration has been a big positive, thanks to the flow of trillions of dollars into those 401(k)s, IRAs and other retirement accounts—$9.4 trillion to date, more than six times as much as in 1990. All that money generates sizable commissions and fees for brokerage houses, mutual fund managers, financial advisers and the like.

PHOTOGRAPHS BY TIM FLACH/GETTY IMAGES (DOGS)

But what about for Joe and Jane Investor, who often have to decide where to invest that dough and whom to trust with the decision? For them, most experts say, it's a mixed bag. True, Americans have gained a degree of financial literacy they didn't have previously. "Years ago," says Chip Wieczorek, vice president at Beacon Trust in Morristown, N.J., "people didn't need to know the difference between stocks and bonds." But a little knowledge can be a dangerous thing. Many observers point to the way that panicked investors pulled out of the markets during the height of the 2008–09 meltdown, only to miss the rally that followed. Regardless, the trend toward owning your own retirement won't subside in the years ahead, the experts say unequivocally. By the year 2016, according to research firm Cerulli Associates, the amount invested in 401(k)s, IRAs and similar retirement accounts is expected to grow to $12 trillion—bigger than every economy in the world except America's.

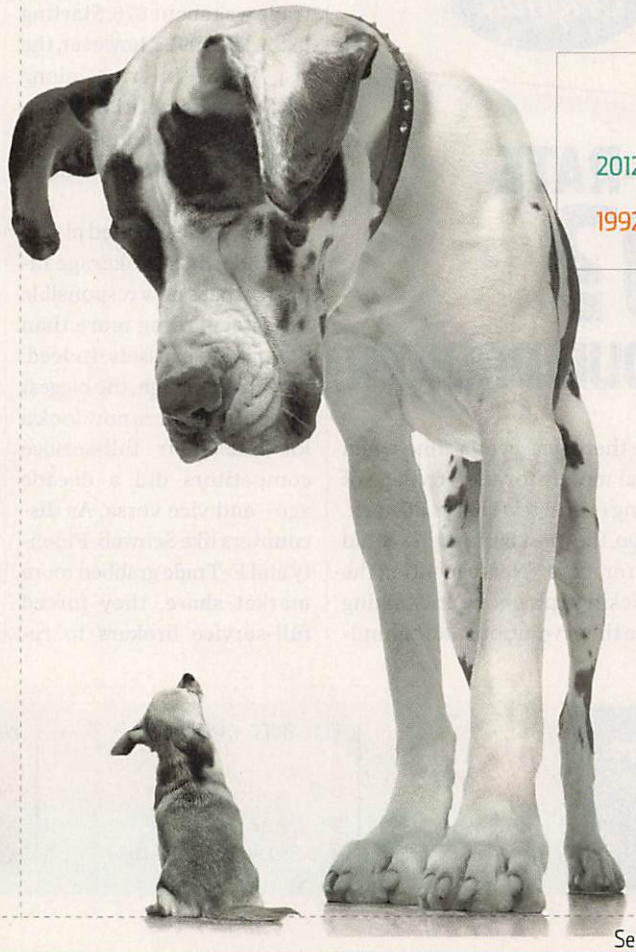


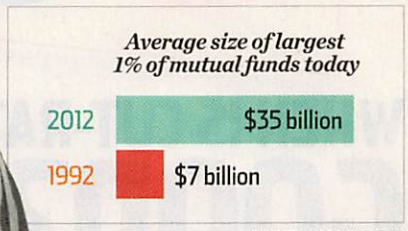
SOURCE: ICI

WITH FUNDS, SMALL IS BEAUTIFUL

The migration of consumers' retirement savings into 401(k)s and IRAs created a huge opportunity for the mutual fund industry, which mushroomed right alongside those accounts. Mutual funds hold 55 percent of the money in such retirement plans today, up from 11 percent two decades ago. And when a newbie retirement-plan investor picks a fund, there's a good chance he'll put his money into one of just a few well-known giants. Bolstered by marketing and by the fund companies' relationships with the firms who administer retirement plans, the big players have been getting bigger. The 100 largest funds now hold $3.5 trillion, up 62 percent since 2008.

Many of these funds are popular for a reason—one way or another, they've put up a track record that looks good in hindsight. There's just one problem: Time and time again, as mutual funds get bigger, their performance erodes. On average, the top 100 funds have landed in the bottom half of their Morningstar fund categories over the last three full calendar years. What goes wrong? Jeff Tjornehoj, a mutual fund strategist at Lipper, says some simply "outgrow their habitat." As investor assets pour in, managers need a place to put them. Some buy stocks that are on their "okay" list instead of their "great" list; others build up big stakes in individual companies, leaving them overexposed if something goes wrong. This can be especially problematic when millions of dollars are pouring in each week because a particular sector or investing style is "hot," says Geoffrey Bobroff, a mutual fund industry consultant in East Greenwich, R.I. The upshot: Too often, a fund's performance levels off, with managers unable to deploy money in ways that don't hurt investors.





SOURCE: MORNINGSTAR

Not every megafund runs aground, of course. But fund experts say investors can profit by steering toward funds that avoid the pitfalls of size. Some managers, for example, simply shut off the spigot. Dennis Bryan, the manager of the $1.2 billion FPA Capital, has kept that fund shuttered since 2004, and says he will close a fund whenever he feels that flows have become so strong that

they are "threatening future returns." Many sharp fund investors say they keep an eye on these funds until they reopen, then join in. Another strategy: watching for funds that, despite good performance numbers, haven't grown especially big—because, for example, they aren't part of many 401(k) plans.

WHEN IS CUT-RATE GOOD? WHEN IT'S YOUR BROKER

It's hard to believe there was ever a time when Americans paid real money for the privilege of purchasing or selling even a few shares of stock. But 20-plus years ago, the most basic trades could easily set clients back a Benjamin or more. (Not to mention the fact that such trades involved picking up a phone and talking to a real, live person.) Then came the revolution: The behind-the-scenes growth of increasingly sophisticated and fast trading technology took much of the human element out of the transaction—and drove down the price. The past two decades have seen the full flowering of the discount-brokerage movement originally spearheaded by Charles Schwab and his namesake firm. Even the discounters didn't used to be cheap by today's standards—at Schwab in 1991, the average price of a trade was about $76. Starting in the late 1990s, however, the rise of the Internet, along with the competition it fostered, drove commissions down to the rock-bottom lows we see today.

Average stock-trading commission at a discount brokerage

SOURCE: SMARTMONEY BROKER SURVEYS

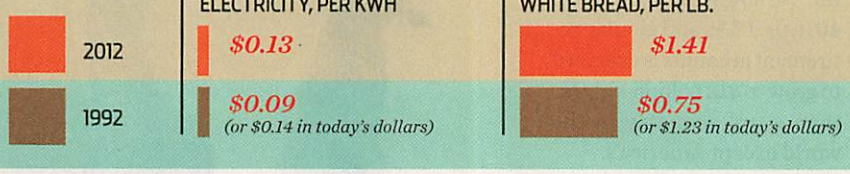
The change created plenty of ripples in a brokerage industry that's now responsible for safeguarding more than $14 trillion in assets. Indeed, ironically enough, the biggest discount brokers now look a lot like their full-service competitors did a decade ago—and vice versa. As discounters like Schwab, Fidelity and E-Trade grabbed more market share, they forced full-service brokers to rethink their game, with some offering fee-based accounts that package wealth-management services with unlimited trading. Full-service players started to feature discount platforms as well: Bank of America Merrill Lynch, for example, has Merrill Edge, which charges as little as $6.95 a trade.

Meanwhile, the ever-dropping commissions prompted many discounters to offer their own banking and financial-planning services, especially since there's only so much money to be made off of stock trades that can cost less than a venti something at Starbucks. At these brokers, investors can now inquire about opening a checking account—or making inheritance plans. "The future is about being more holistic in terms of services," says Charles Goldman, a former Schwab executive who's a cofounder of Advizent, a marketing service for financial professionals.

From one angle, it's a parable of how free-market capitalism is supposed to work. Customers clamor for lower prices—and actually get them. Now, anyone can play the stock market and enjoy a range of services as well, for a lot less than they would have 20 years ago. But the discount revolution does have a dark side. Low prices have prompted many less-than-qualified investors to become active traders, buying stocks the way some fashionistas buy design-

PHOTOGRAPH BY BERNARD JAUBERT/GETTY IMAGES (GRAPES)

the more things change... the more they CHANGE



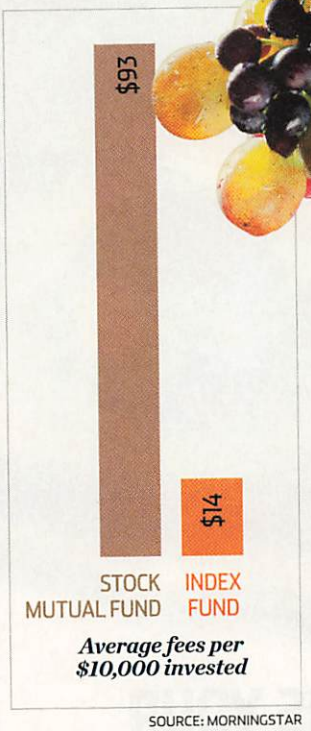
er shoes—and study after study has shown that active traders fare worse than investors with less-itchy trigger fingers. (For more, see "The DIY Investor," page 68.) On a broader scale, some experts say, cheap stock trading makes it easier to see stock investing as a form of speculation rather than part of a sober financial plan. Joshua Brown, a New York financial adviser, says he's seen one too many traders who learned that lesson the hard way. "If you give some investors too much rope, they'll hang themselves," he says.

LOOK IT UP IN THE INDEX

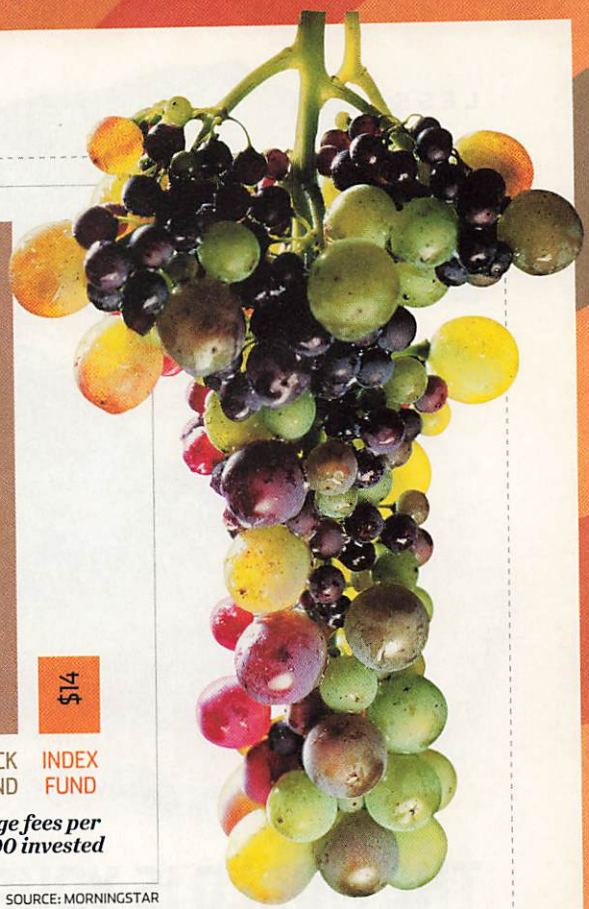
Two decades ago, active stock pickers ruled Wall Street, and some were a little smug about their prowess. They were particularly dismissive of index funds, which seek to own all the stocks in a given category, without researching them. Without the genius of a fund manager behind them, the pros sneered, investors might as well rely on a monkey to throw darts at the stock page.

Well, a lot more of us are living on the *Planet of the Apes*—and liking it. In the early 1990s, index funds held roughly $1 out of every $50 in the stock-fund universe. Today it's $1 out of every four. What happened? The most obvious answer, experts say, is that investors wised up to the way investment costs dent active funds' returns. On average, actively managed stock mutual funds charge investors fees of 0.9 percent a year—$93 per $10,000 invested. To earn their keep, stock pickers need to beat the market by at least this amount, year in and year out. It may not sound like much, but over the past five years, fewer than three in 10 funds have managed the feat.

Changes on Wall Street have also played a big role. Back in the day, many actively managed mutual funds were mostly sold by stockbrokers who earned hefty commissions to peddle the hottest names. Facing complaints from customers and bad publicity in, ahem, the personal-finance press, these so-called sales loads eventually got a bad name. And these days many brokers charge a flat fee rather than commissions, which can make them far happier to recommend index funds. Fee-based advising "made passive viable," says Tyler Cloherty, senior analyst at brokerage researcher Cerulli Associates.

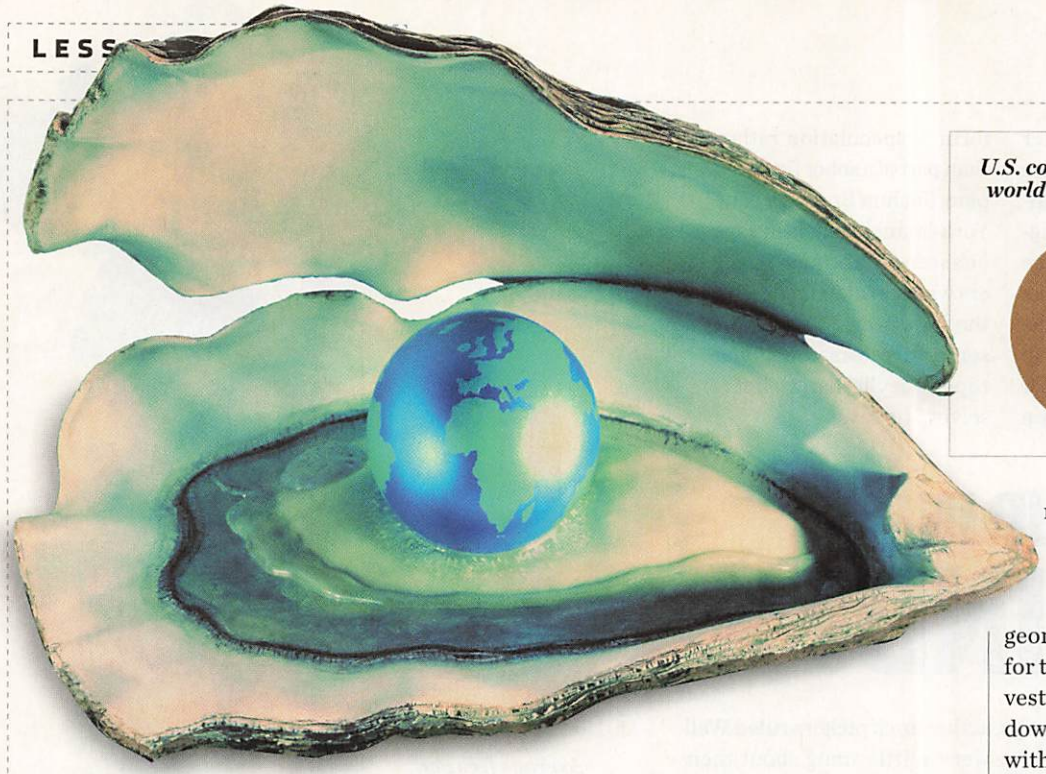


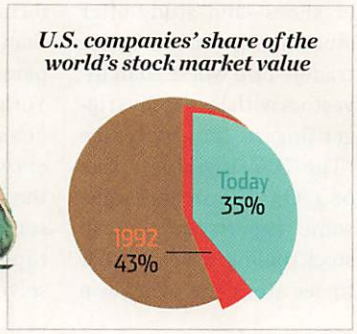
SOURCE: MORNINGSTAR



Index funds themselves have changed with the times, too. In 1993 the now defunct American Stock Exchange, looking to gin up trading volume, created a new index-tracking investment that could be traded any time of day, like a stock. Thus was born the exchange-traded fund industry, which now holds more than $1.2 trillion in investor assets. Today there are more than a thousand such ETFs covering dozens of narrow corners of the stock and bond markets. The Standard & Poor's 500-tracking SPDR alone holds about $100 billion.

Of course, there's been some deep irony accompanying the popularity of ETFs and indexing. Experts have long urged individual investors to use these products to build cheap, broadly diversified portfolios of stocks they are willing to stick with for the long haul. But some ETFs charge fees amounting to more than $100 per $10,000 invested, higher than the average actively managed fund; about one in 10 index funds charges more than $200. Moreover, some critics point out that many investors essentially flip ETFs in rapid-fire market-timing strategies—running up the kinds of trading costs and other expenses that can make an active fund pricey. "It certainly wasn't the original aim, that's for sure," says Westwood, N.J., financial adviser Mark Willoughby.





SOURCE: FACTSET

THE WORLD IS YOUR OYSTER

Twenty years ago, Mark Mobius visited a tire company in Sri Lanka that he was considering as an investment. It quickly became clear that the manager of the Templeton Emerging Markets fund—a pioneer in its field—was the first Western investor to knock on the company's door. "They didn't have any clue as to what I wanted, why I was there," he recalls.

These days, wherever Mobius travels, he's greeted with glossy brochures—in English—and an eager investor relations executive who knows exactly why he's there. And although they seldom literally follow in his footsteps, many American investors and consumers are on the same path. Just about everything—petroleum stocks, purses, pomegranate juice—can be bought anywhere, by anyone with an Internet connection (that's more than 2 billion people, or about a third of the world's population). Nobody shopped online until the mid-1990s, of course, but in 2011, e-commerce generated $194.3 billion in the U.S. alone.

Shoppers of all kinds look abroad for the same reasons: better deals and wider selection. For investors, there's also the lure of diversification. While economies have become more interconnected in recent years, it still pays not to put all your investing eggs into one geographic basket, the pros say: Owning foreign stocks and bonds can help investors ride out a rough patch in U.S. markets. And investors have clearly grown more comfortable with investing abroad: 321 mutual funds now have *international* in their name, compared with 92 in 1992, according to Morningstar, and assets in these funds have grown more than tenfold during that time.

Technology, of course, has fueled much of this change. Back in the early 1990s, foreign-stock investors used to request company annual reports via the post office—it might as well have been carrier pigeon—and then wait weeks for them to arrive. Today, investors everywhere can download company filings with the click of a mouse. Thanks in part to new scrutiny from all these eyeballs, accounting conventions have become more standardized across countries, says Bill Fries, co-portfolio manager of the $25 billion Thornburg International Value fund. As a result, many financial advisers no longer hesitate to suggest that younger investors hold as much as 50 percent of their stock portfolios in foreign companies.

For all the changes over the past 20 years, certain principles haven't budged. John Arnhold, chief investment officer of internationally focused First Eagle Investment Management, says his managers still look for companies whose stocks trade for less than what they estimate the business is worth. (By that metric, they're finding some

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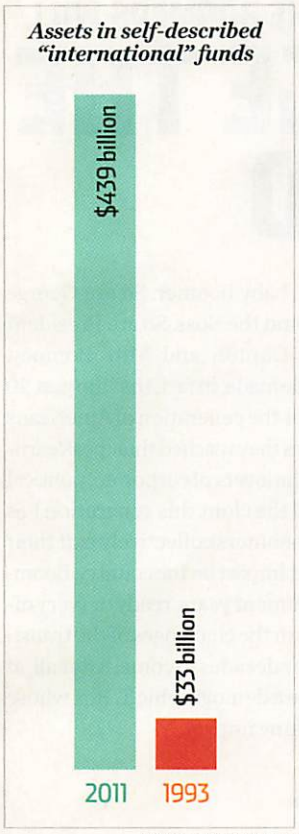


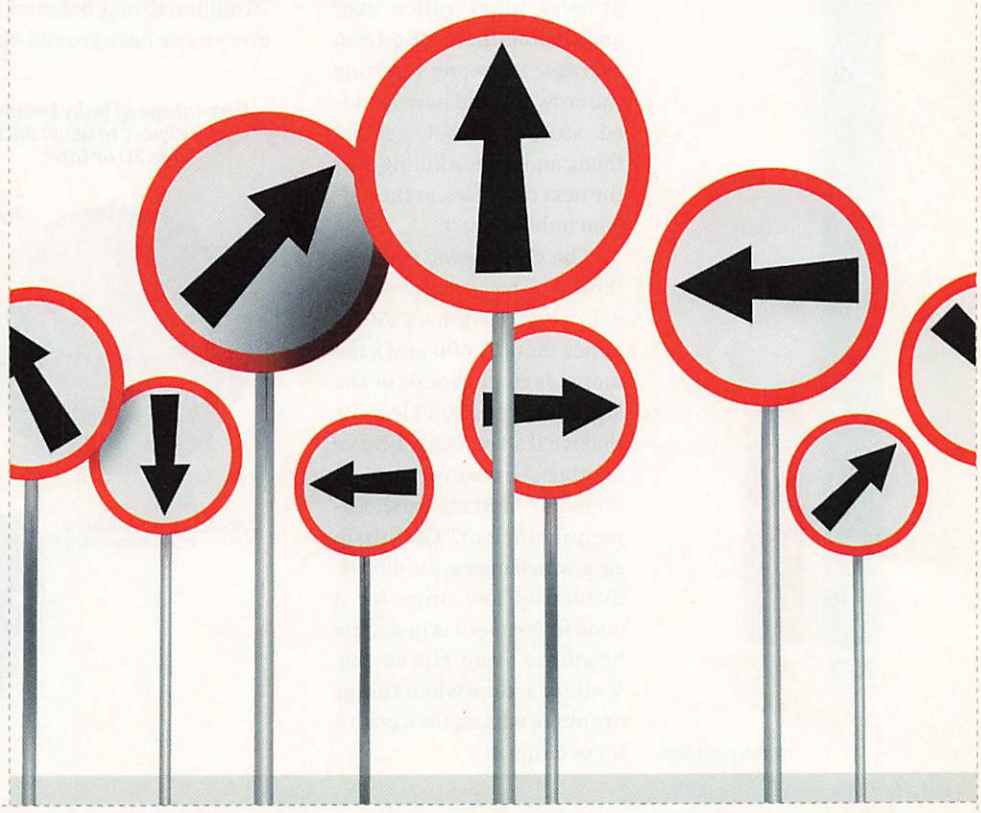
SOURCE: MORNINGSTAR

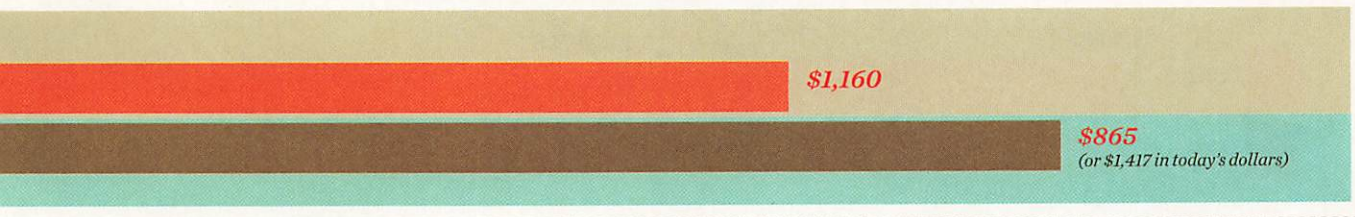
of the best opportunities in Japan.) And some markets remain riskier than others. Other investors see the most opportunity, and the most volatility, in the so-called frontier markets of Africa and other developing nations. Mobius, for example, likes resource-rich Nigeria and Kenya. Access to reliable information in those markets still has room for improvement, he says, but even so, those countries are more advanced than China or Sri Lanka 20 years ago. Investing there, Mobius says, "was quite an adventure."

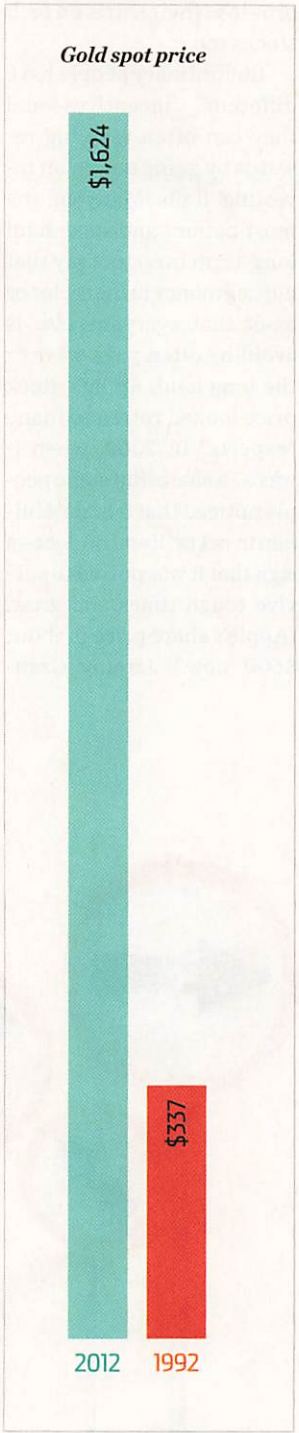
BE CONTRARIAN— AND WIN

Investment pros are a lot like anyone else. They want to pick stocks, bonds and other assets that will soar in value—but when it comes right down to it, they also want to keep their jobs. And the sure way to hang on to your salary in the investing world, many industry insiders say in low voices, is to just go with the herd. It's why the performance of many mutual funds won't look much different from the index they benchmark themselves against—even though many actively managed funds cost investors much more than an index fund. Famed economist John Maynard Keynes once said, "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally." Translated into the investing world: You won't lose your job if you lose half your fund's money on tech stocks, as long as your fellow pros lose their shirts on tech stocks too.

But ordinary people have different incentives—and they can often reap big rewards by going out on an investing limb. Many of the most patient and successful long-term investors say that putting money in the sector or asset that everyone else is avoiding often pays off over the long haul. Apple's stock price looked rotten to many "experts" in 2002, when it was $7 a share. But some people noticed that it had $4 billion in net cash and no debt—a sign that it was poised to survive tough times and grow. (Apple's share price is about $600 now.) Jeremy Gran-







SOURCE: BLOOMBERG

tham, a famous contrarian who's made his living zigging when everyone else zagged, sent a note to readers and clients, dubbed "Reinvesting When Terrified," that advocated jumping headfirst into stocks. The date: March 2009. Most investors stayed terrified—indeed, over the subsequent three years, they pulled more than $200 billion out of U.S. stocks—but the markets, of course, rebounded with a vengeance.

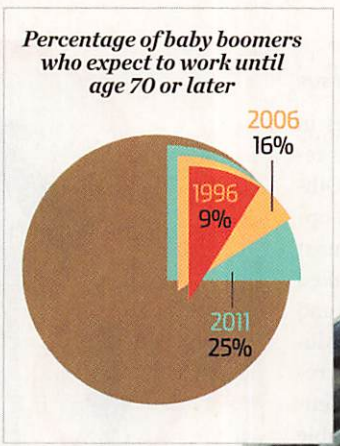
Being contrarian can save investors lots of money as well. Back in 1999, the herd was buying large stocks, not noticing that they were trading, as a group, at 34 times expected profits, their highest price/earnings ratios ever and double their long-term average. Someone ignoring the crowd would have avoided stocks—or bet against them, and made a killing over the next two years, as the dot-com bubble burst.

The good news, even for those who have missed out on gold's 1999 bottom ($250 an ounce then; $1,600 now), the monster run in bonds or the stock market's 2009 lows, is that we'll all most likely have another chance over the next 20 years. "Markets are shockingly inefficient," Grantham says, which means the next ridiculously low price for a good investment is just a few headlines away. His advice: Wait for a time when things are out of whack, then push a lot of chips in.

THE GRAYING OF THE BOOMERS WILL

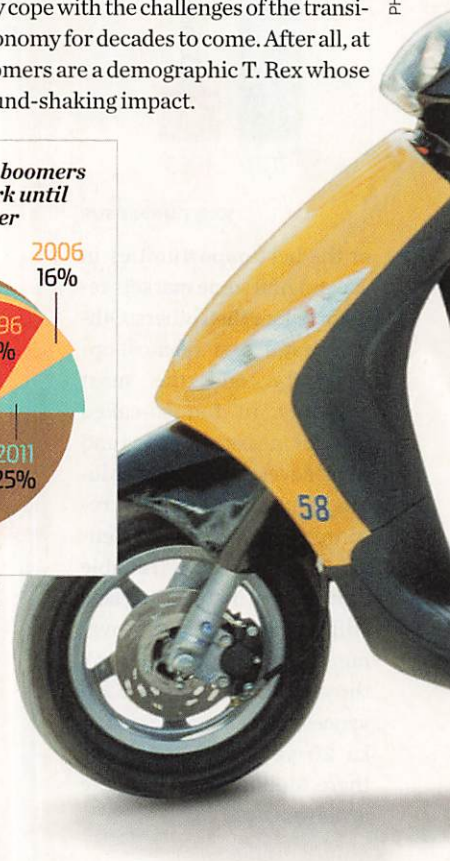
CHANGE THE WORLD

Steve Jobs was a baby boomer. So are George Clooney, Oprah and the Boss. So are President Obama, Hillary Clinton and Mitt Romney. There's a case to be made, in fact, that the past 20 years represented an apogee for the generation of Americans born between 1946 and 1964—as they reached their peak earning years while taking hold of the levers of corporate, political and cultural power. But for all the clout this generation has wielded in its prime, the way boomers collectively exit their prime could have an even bigger impact on the country. Boomers are plowing into their retirement years, ready or (very often) not. And how they cope with the challenges of the transition will shape our economy for decades to come. After all, at 78 million strong, boomers are a demographic T. Rex whose every move has a ground-shaking impact.



SOURCE: EMPLOYEE BENEFIT RESEARCH INSTITUTE

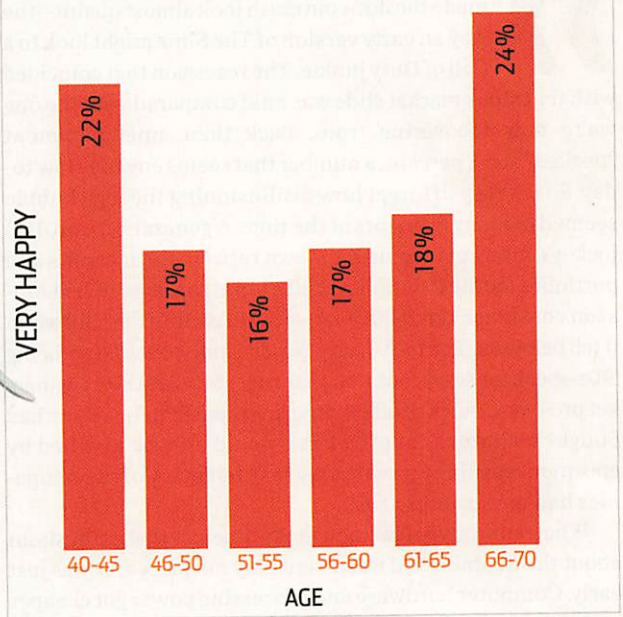
PHOTOGRAPH BY OLE GRAF/CORBIS



During the stock market booms of the 1990s and the mid-2000s, many boomers undoubtedly thought their retirement would meld the best of the Buffetts (Warren and Jimmy), combining fat portfolios with tropical ease. But since the 2008 crash, many are coping with shriveled savings and diminished expectations. According to a recent MetLife survey, only half feel that their retirement savings are on track. While most are willing to keep working to close their financial gaps, that choice isn't always in their hands. Disability rates for Americans in late middle age are worsening, sabotaging many workers' earning power just when they need it most, says demographer Neil Howe, founder of consulting firm LifeCourse Associates.

Multiply these personal challenges by, well, 78 million, and their importance becomes obvious. Already, the cost of Social Security and Medicare benefits for boomers is the angry elephant in the room in any debate over government spending. But there's plenty of silver lining, too. More empty nesters, whether in need of a job or just hankering to be their own boss, are hanging out a shingle—giving the economy a jolt. Indeed, 45- to 64-year-olds composed 48 percent of all new entrepreneurs in 2011. "Contrary to the popular opinion," says Scott Shane, economics professor at Case Western Reserve University, entrepreneurship "increases as people get older." And so, studies say, does happiness: The AARP Thriving index, which measures emotional well-being, suggests that people's happiness reaches its lowest point at ages 51 to 55 and starts peaking after 65.

Research shows that happiness drops at midlife, but peaks at the start of retirement.



SOURCE: AARP

1,317

YIELD ON A 10-YEAR TREASURY BOND

1.5%

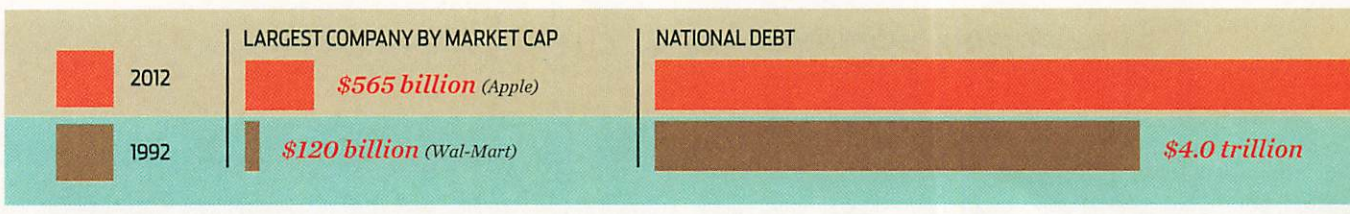
7.7%

DIGITAL IS FOR REAL

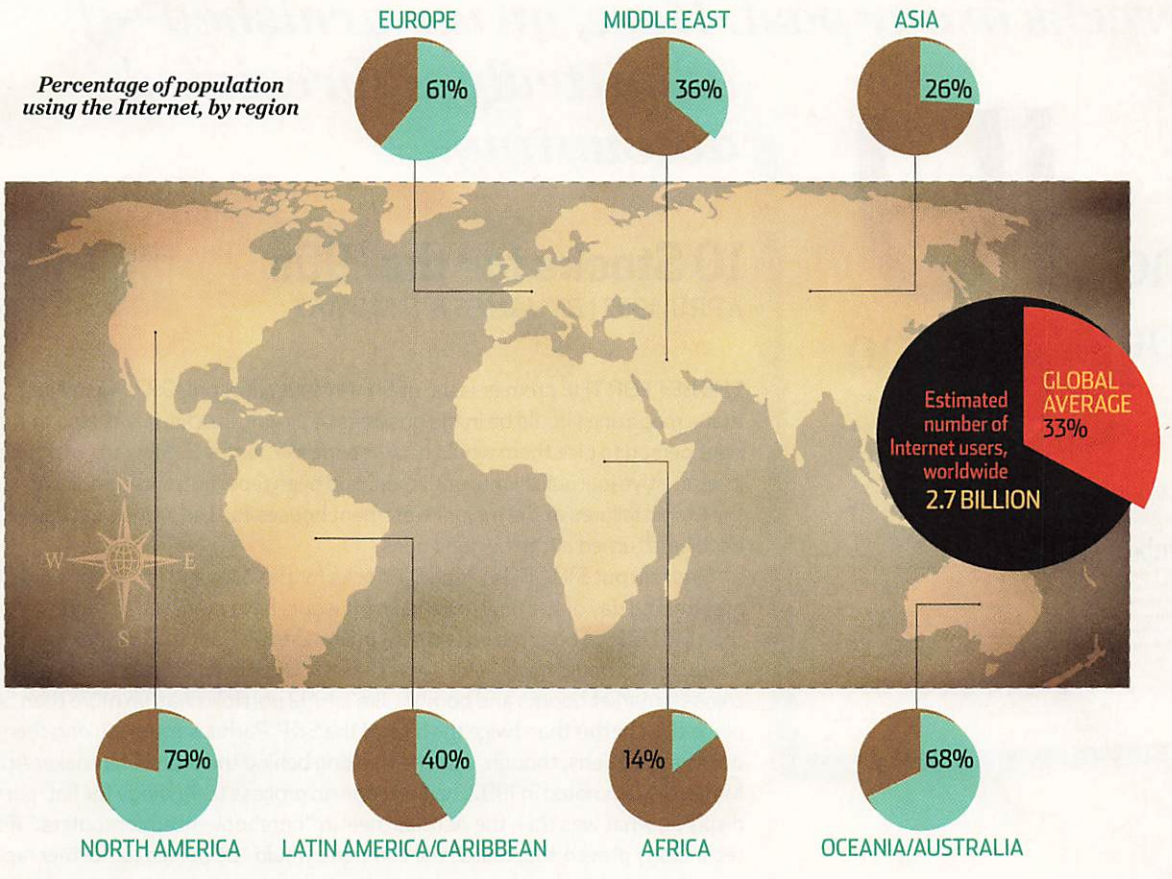
The 2008 financial crisis and its aftermath have made the dot-com crash look almost quaint—the way an early version of The Sims might look to a Call of Duty junkie. The recession that coincided with that stock market slide was mild compared with the one we're now recovering from. Back then, unemployment "peaked" at 6.3 percent, a number that seems enviably low today. So it's easy to forget how disillusioning the tech bubble seemed to many investors at the time. A generation of 401(k) jockeys, many managing their own retirement accounts and portfolios for the first time, felt like kings as they watched Amazon.com break the $100 mark—only to endure the chill when it fell below $8. The tech-heavy Nasdaq index (*tech heavy* being '90s-speak for sexy) took a similar trajectory, and bearish market pros were quick to offer withering hindsight: Investors had bought tech stocks at prices that could only be justified by enormous earnings growth, they said, but many of the companies had no earnings at all.

What only a savvy few knew at the time was that enthusiasm about the digital world wasn't entirely misplaced: It was just early. Computer hardware and processing power got cheaper and more powerful, digital communications grew faster and more reliable, and eventually, the profits followed. Amazon.com got its groove back, and an entire e-commerce universe took shape. Mobile phones shrank and grew sleeker, even as they became minicomputers that perform tasks once reserved for hangar-size Univacs. In 2000 just 44 percent of Americans were online; today 78 percent are, and vast swaths of the developing world aspire to the same access. And the information technology sector is so well established as to be almost stodgy, accounting for almost 20 percent of the value of the firms in the S&P 500.

But as experts note, and as just about anybody with a job knows, the digital-driven world is anything but settled and secure. Better communication and information-processing technology have created losers as well as winners in all kinds of industries, says John Hagel, co-chairman of consulting firm Deloitte's tech-oriented Center for the Edge: "The biggest change is the intensification of the competition." Customers and business partners demand more of every company—and in private life, Americans face more pressure to make more and faster decisions about their spending and their financial security. The good news, says Anindya Ghose, co-director of the Center for Digital Economy Research at the NYU Stern School of Business, is that savvy citizens are already using the digital era's overwhelming supply of data to their benefit—finding better deals, unearthing smarter investments and holding companies accountable. And mobile Internet platforms and social-media outlets are just adding more tools to the consumer kit. In the never-ending, high-stakes negotiation between companies and consumers, says Ghose, "each of these will be game changers."



Percentage of population using the Internet, by region

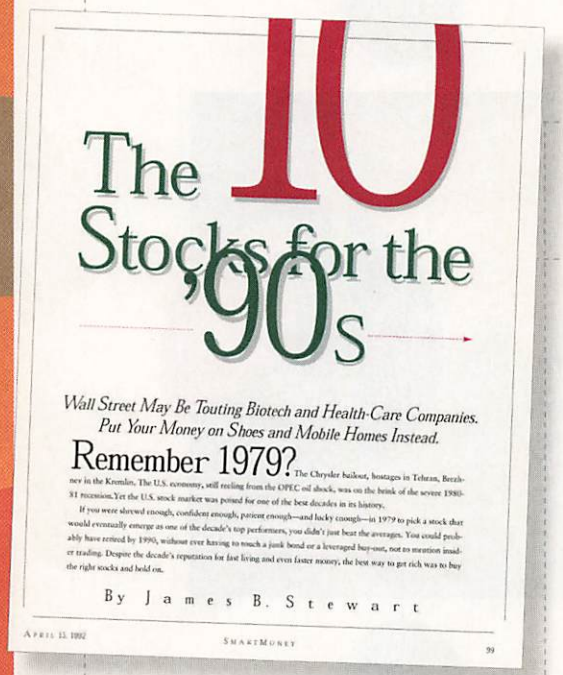


SOURCE: INTERNET WORLD STATS

$15.8 trillion

Over the past several weeks,

SmartMoney staffers have gone through a marathon exercise—racing through some 34,000 pages of past issues to discover precisely what we got right, wrong and embarrassingly wrong over these many years. Overall, we're happy to report, our investment advice has been more on-target than off. But, yes, there are a few train wrecks in our past. Here, an unvarnished—if, admittedly, abbreviated—accounting.



The 10 Stocks for the '90s

Wall Street May Be Touting Biotech and Health-Care Companies. Put Your Money on Shoes and Mobile Homes Instead.

Remember 1979? The Chrysler bailout, hostages in Tehran, Brezhnev in the Kremlin. The U.S. economy, still reeling from the OPEC oil shock, was on the brink of the severe 1980-81 recession. Yet the U.S. stock market was poised for one of the best decades in its history.

If you were skewed enough, confident enough, patient enough—and lucky enough—in 1979 to pick a stock that would eventually emerge as one of the decade's top performers, you didn't just beat the averages. You could probably have retired by 1990, without ever having to touch a junk bond or a leveraged buy-out, not to mention insider trading. Despite the decade's reputation for fast living and even faster money, the best way to get rich was to buy the right stocks and hold on.

By James B. Stewart

April 13, 1992 SmartMoney 39

10 Stocks for the '90s

HIT

APRIL 1992 | *BY JAMES B. STEWART*

THE BET FOR THE premier issue of SmartMoney, in April 1992, wasn't just that a magazine should be in the business of picking stocks; it was also that the right person to pick them would be someone like James B. Stewart—a dogged investigative journalist who, until then, had been reporting and chronicling the titanic failures of the major investment houses for *The Wall Street Journal*. Both bets turned out to be good ones.

Had you put $10,000 in Jim's 10 stocks for the '90s and left it alone until the first trading day of the new millennium, it would have amassed to more than $90,000. The same investment in Standard & Poor's 500 index, by comparison, would have yielded less than $17,000. Even 20 years later, after two colossal market booms and bombs, Jim's 1992 portfolio was up more than 500 percent, or better than twice the haul of the S&P. Perhaps more striking than such dollar calculations, though, was the thinking behind the picks. Chipmaker Applied Materials, Jim noted in 1992, had an edge on process technology for flat-panel displays, what was then the Achilles' heel in "notebook-sized computers." If the technology proved successful, the company would "be poised for further rapid growth in what is already one of the fastest-growing segments of the computer field." It was—on both accounts. By the end of the 1990s, the share price had grown by a factor of 80.

Other stocks in the portfolio were decidedly nontech: a mobile-home builder (acquired by Warren Buffett's Berkshire Hathaway), a bank (gobbled up by another bank on Jim's list), the La-Z-Boy Chair Co. (which quadrupled in value on a national wave of couch-potatoism). "Yuppies may scoff," wrote the author, but La-Z-Boy was well-positioned to capitalize on "two major trends of the '90s": the aging of the baby boomers and "the worldwide demand for...comfortable furniture."

Where to Invest
1992–2012

HIT

THE PERCENTAGE, quite frankly, is shocking. Just 29 percent of actively managed mutual funds have beaten their benchmark indexes over the past five years, according to Morningstar. Over the past decade, the so-called pros have done even worse, with just 26 percent doing a better job choosing investments than a blind index fund. It is in that context that our flagship "Where to Invest" portfolios, published each January, have stood out—outpacing the S&P 500 in 13 of the past 19 years, and on more than a few of those occasions, lapping the venerable index to boot. Returns for the magazine's picks tripled those of the broad market in 2007, doubled them in 2005 and 2011, and routed them by 34 percentage points in 2000. Annualized returns for the first decade of the list (1993 through 2002), meanwhile, were 14.5 percent, compared with 9 percent for the S&P.

No doubt some of this success over two tumultuous decades has been due to plain dumb luck. (Markets, like tornadoes, are adept at turning the best laid plans into rubble.) But then, we'll take a little pride in some of our picks as well. In 2003 we chose two generic-drug makers, Barr Laboratories (up 92 percent a year later) and Teva Pharmaceutical (up 54 percent), when most analysts were afraid a lack of blockbusters would tar the whole drug sector. In 2007 we gambled on Amazon.com's own gamble that its huge investment in technology would soon pay off. Since then, net sales have more than quadrupled and the stock price is up by a factor of five.

And in 2009 we bet on Apple. We admit that, by that point, we were Stevie-come-latelies. Still, in the month we told readers to buy, Apple shares were $520 cheaper than they are now. Better late than never.

Lehman Brothers
WHERE TO INVEST, 2007

MISS

ALL OF WHICH, we hope, will distract the faithful reader from the fact that we picked Lehman Brothers in 2007, just a year and a half before the investment bank became the centerpiece of a global financial catastrophe—and filed for the biggest bankruptcy in history.

"Lehman Brothers," we said in our "Where to Invest" article, "has gone from Wall Street laughingstock to fierce competitor, largely by diversifying away from its past dependence on fixed-income trading and underwriting." What we didn't piece together then was that the bank had diversified itself into a pile of subprime mortgages, many of which would turn out to be worthless.

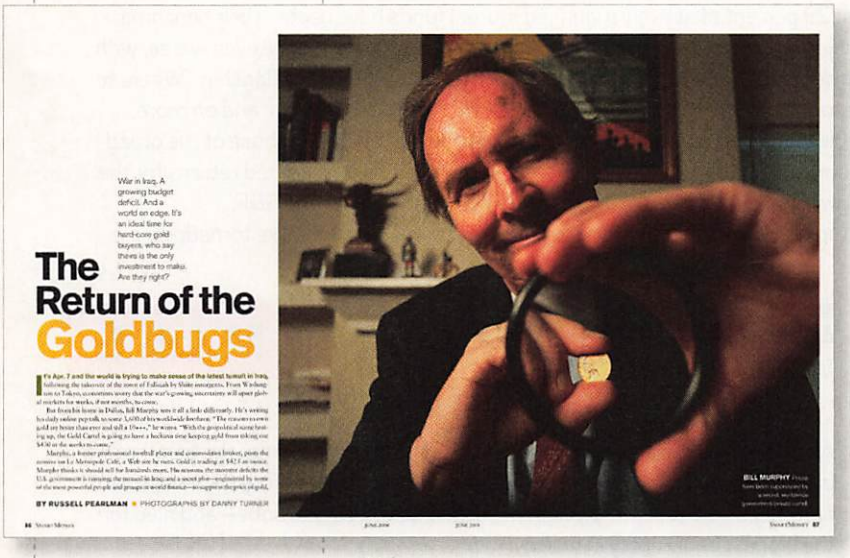
There was—full disclosure—a hint that not all was right. "Other investment pros," we wrote, "can't help thinking that the winning streak will end." How right they were.

THE BEST INVESTMENTS FOR 2000
WHERE TO INVEST IN 2005
WHERE TO INVEST 2007
THE 7 BEST INVESTMENTS FOR 1994
WHERE TO INVEST IN 2003
WHERE TO INVEST 2009
WHERE TO INVEST 2011

MISS

Return of the Goldbugs

JUNE 2004 | *BY RUSSELL PEARLMAN*


War in Iraq. A growing budget deficit. And a world on edge. It's an ideal time for hard-core gold buyers, who say there is the only investment to make. Are they right?

The Return of the Goldbugs

BY RUSSELL PEARLMAN ■ PHOTOGRAPHS BY DANNY TURNER

BILL MURPHY

GOLD! When we caught up with a Texan named Bill Murphy in June 2004 ("The Return of the Goldbugs"), the former pro football player and commodities broker had invested every penny he had—more than $2.5 million—in gold bullion and in the shares of gold and silver companies. The Iraq war had begun the year before, the U.S. government was operating half a trillion dollars in the red, and Murphy was convinced that the globe would only descend into more turmoil. The price of gold—then $422 an ounce—would double, Murphy declared. He was right, of course—and then some. The yellow metal shot up to a high of nearly $1,900 an ounce in September of last year; and even at its current price, it's almost four times its 2004 value.

That's not what we predicted at all. "History, at least the past 200 years or so," we wrote, was not on the side of gold lovers. While there was perhaps some short-term money to be made in the precious metal, "the bull market for gold will not last and anyone making gold the cornerstone of his or her investment portfolio is making a serious mistake." New York fund manager Chris Davis agreed with us at the time. Gold, he said, wasn't an "earning asset" (one that paid dividends). It was a psychological asset. "I just don't get it," he shrugged. Neither, it seems, did we.

Return of the Doomsayers

SEPTEMBER 2007 | *BY RUSSELL PEARLMAN*

HIT + MISS

WITHOUT QUESTION, no article in the SMARTMONEY archive was more timely than Russell Pearlman's "Return of the Doomsayers," in September 2007. The article, a 2,100-word survey of apocalyptic market predictions, made an eloquent, even sensible case for why the equity sky had to fall. When that bubble burst did come, warned money manager Jeremy Grantham, it would "be unlike anything we've ever seen. It's terra incognita."

Just weeks later, on Oct. 9, 2007, the S&P 500 closed at 1565—and then dropped off a cliff, losing more than half of its value over the next 13 months.

If only we had heeded our own warning.

Rather than head for the storm cellar, we bet, in our January 2008 "Where to Invest" feature, that the world economy would expand at a 4.8 percent clip. We also named a dozen big multinational companies that would benefit. The portfolio lost 54 percent of its value in the 12 months that followed, some 14 points worse than even the dismal S&P 500 index's return.

That year, we bet the store on the financial-services sector. ("Subprime fears laid waste to the group," we said, "but some well-run firms will emerge stronger.") One of those well-run firms

Return of the Doomsayers

was Genworth Financial, whose $11 billion in annual revenue came from things like long-term-care insurance, retirement planning and mortgage insurance—businesses we assumed would grow rapidly. When mortgages began sinking en masse, however, the insurer took a massive hit. Within 12 months, Genworth shares had dropped 94 percent.

HIT + MISS

Bill Miller

FEBRUARY 1997 + AUGUST 2006

WHEN WE FIRST profiled Bill Miller, in February 1997, naming the steward of Legg Mason Value Trust one of the nation's seven best fund managers, he was already six years into the most famous streak in fund-management history. Still, he had a long way to go, whupping the market for the next nine years straight, as he rode 1990s tech darlings like Dell Computer and even one from 1911 (IBM) into the stratosphere. By the close of 2005, the end of Miller's 15-year streak, the price of Dell's shares had climbed 625 percent, more than 10 times the rise of the S&P over the same period.

Miller, a former military intelligence officer and philosophy student, would hold on too long to some of his favorite stocks—and lead many of his faithful fund holders into an unfortunate reversal of their fortunes. That dramatic fall, in fact, would begin shortly after we profiled Miller again, featuring him in "World's Greatest Investors" in August 2006. Famous for his come-from-behind victories over the S&P, Miller was trailing the index when we wrote about him—but that year his quirky gambits (would Middle America really fall in love with Sears again?) did not pay off. Then, during the financial crisis in 2008, he snapped up AIG, Wachovia, Bear Stearns and Freddie Mac; the latter three were almost wiped out, and Miller rode them all the way down. (We told readers "even the best managers have bad years" and that they should stick with him.)

Miller admitted, in a December 2009 SmartMoney story, that he didn't think the financial system would deteriorate as badly as it did in the crash. "We relied too much on history," he said. "You're always a captive of your past." The legendary manager withdrew from managing Value Trust at the end of April 2012: His once-Olympian fund was trailing the S&P by three points, year to date.

HITS (MOSTLY)

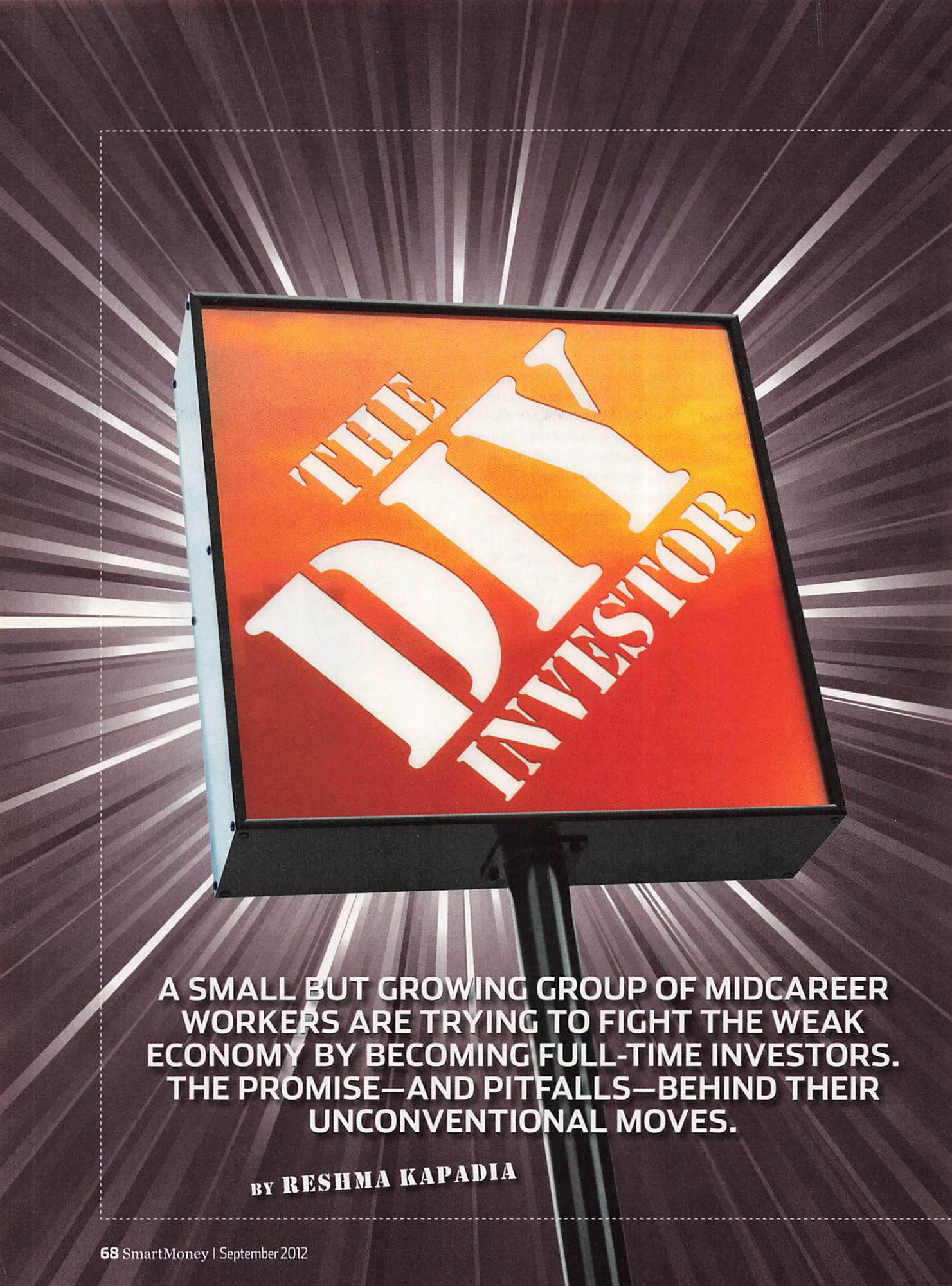
World's Greatest Investors 2005–2011

DESPITE OUR MISTIMED moments with Bill Miller, SmartMoney has had a knack for highlighting the best and brightest money managers at the right time. We introduced readers to market beaters like Joel Tillinghast, Wally Weitz, Will Danoff, Bill Nygren and George Mairs, and investors would have largely fared well following their guidance over the years.

When we named Robert Rodriguez to our 2009 "World's Greatest Investors" list (a feature we introduced in 2005), the manager of the FPA Capital fund—who had grown up poor, just two miles from his Los Angeles office—told us his goal in managing money was, above all, to not lose it. Truth is, he's done a lot better than that. His fund is up 58 percent since our story ran, outpacing the broad market by 10 points.

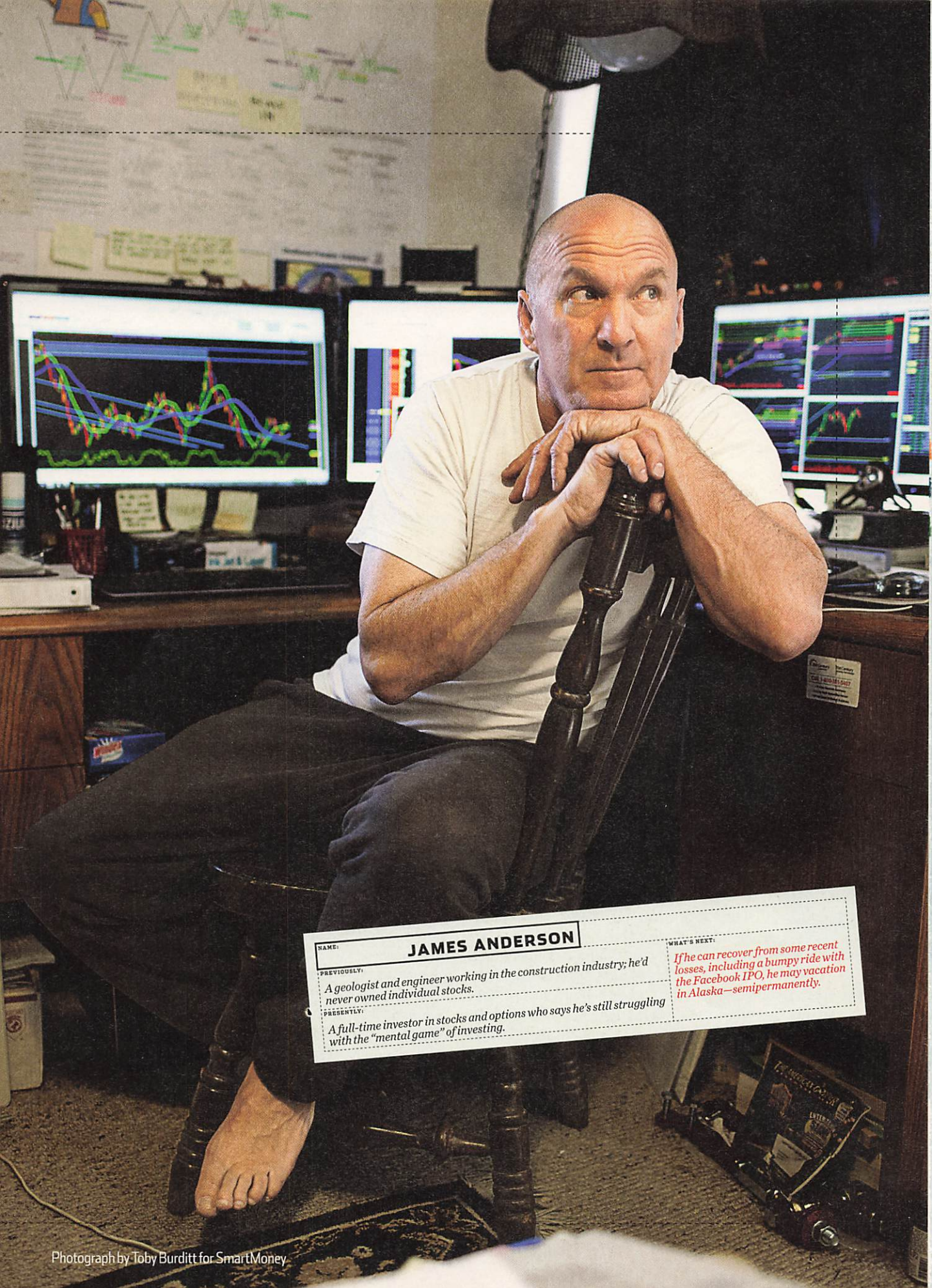
On the other hand, some of our selections have not fared so well. We twice called manager Thyra Zerhusen one of the world's greatest (in 2010 and 2011), and we included her in our kick-off-the-year manager roundtable in 2007. But on the whole, the nine stock picks she has offered our readers over those years haven't exactly panned out. She's a buy-and-hold gal, though—and frequently, for Zerhusen, those long-horizon bets have paid off.

We've felt the same way, in fact, about many of the pros featured in these pages. After all, in the short term, the stock market may be a voting machine, as the economist Benjamin Graham famously wrote. But over time, it acts like a weighing machine—measuring the true value of an asset, not its popularity. The same holds true, we've found, for the true investing greats: Their wisdom is best judged over years, not market quarters. Maybe it's wishful thinking, but we hope the guidance in this magazine will stand the test of time as well.



A SMALL BUT GROWING GROUP OF MIDCAREER WORKERS ARE TRYING TO FIGHT THE WEAK ECONOMY BY BECOMING FULL-TIME INVESTORS. THE PROMISE—AND PITFALLS—BEHIND THEIR UNCONVENTIONAL MOVES.

BY RESHMA KAPADIA



NAME: **JAMES ANDERSON**

PREVIOUSLY:
A geologist and engineer working in the construction industry; he'd never owned individual stocks.

PRESENTLY:
A full-time investor in stocks and options who says he's still struggling with the "mental game" of investing.

WHAT'S NEXT:
If he can recover from some recent losses, including a bumpy ride with the Facebook IPO, he may vacation in Alaska—semipermanently.

Photograph by Toby Burditt for SmartMoney

NAME: **PATRICK VALLE**

PREVIOUSLY:
A compliance officer at Washington Mutual. After that bank collapsed, he moved back home with his parents to save money.

PRESENTLY:
Trades exotic options strategies like "butterflies" and "iron condors." He's also starting an investment advisory firm, often meeting clients at a local coffee shop.

WHAT'S NEXT:
Taking more boxing classes to cope with the stress of trading, and, eventually, moving into a place of his own.

statistics offer clues. The number of active traders, defined by research firm Aite Group as investors who place at least 36 trades a year, has increased 22 percent since 2008—adding 1.2 million people to their ranks despite a fear-inducing market climate. Investors who have brokerage accounts are also "self-directing" a larger share of their assets, analysts say, doing without the services of a full-time middleman. And some of these investors have taken themselves to boot camp. Brokerage giant Charles Schwab says attendance at its seminars for active traders doubled from 2008 to 2011.

In many instances, putting on a day-trader's hat represents a calculated financial choice. For some, it's a stopgap until they find more secure work. When Bob Stammers, now director of education at CFA Institute, a nonprofit group of investment professionals, taught trading courses from 2008 to 2010, he says many of the attendees were unemployed professionals. "Investing was one of the unique situations where they could possibly make as much money as they were before," Stammers says. And trading can remain appealing even for those who've found new work, since many have taken a pay cut. The average earnings loss during the past recession—18 percent—has been the worst since 1984, according to a paper by Princeton economics professor Henry Farber. As the economy improves, some of these new investors aren't so sure about returning to familiar territory. "If I went back to the corporate world, it would limit my income," says Patrick Valle, who began trading options after losing a banking job in 2009.

Of course, investing is anything but a sure shot. In fact, the idea of unemployed clients tapping carefully planned-out nest eggs to invest makes most financial advisers cringe. Mag Black-Scott, head of Beverly Hills Wealth Management, says some of her clients who have taken a buyout want to sink it into cheap real estate they can rent out for income, a move she says is "fraught with risk." The reaction is even more visceral when it comes to day trading. Only about 1 percent of traders are consistently profitable over several years, and investors who trade more frequently tend to underperform the market, according to Brad Barber, a finance professor at the UC Davis Graduate School of Management who has done extensive research on the issue. Trading more also generates more commissions and fees, hurting even those who turn a profit. Those running trading seminars don't refute such statistics. "Even with the basics of a plan in place, it does not guarantee success," says Merlin Rothfeld, an instructor for Irvine, Calif.-based Online Trading Academy, one of the largest players in the training field, which claims 29,000 graduates and generated $62 million in global revenue last year.

That said, a very tiny minority can make a good chunk of money. And consciously or unconsciously, this whole cadre has joined the handful of legendary investors—professionals like Warren Buffett—who swoop in when others are fleeing for the exits. Whether that swoop will end in a gentle landing or a wipeout remains to be seen.

THE OPTIONS WHIZ
PATRICK VALLE, 43

If anyone knew better than to start day-trading, it was Patrick Valle. Several of his friends lost their shirts after the tech boom, and a career as a compliance officer at a major bank taught him how tricky the markets could be. That bank, as fate would have it, was Washington Mutual—and as it fell apart during the financial crisis, Valle knew he'd need a plan B. When his job finally fell under the ax, he took a leap of faith, moving back into his old bedroom in his parents' Orange County, Calif., home, at the embarrassment-inducing age of 40, so he could use his severance pay to launch a career as a trader.

In his last days at WaMu, Valle started trying to learn how to play the market in a very different way, by trading options. Options come in a bewildering range of varieties, but they all serve the same function: They give their owner the right to buy or sell any asset, from stocks to commodities, at a specified time at a pre-specified price. Options offer a way to make money even when an asset's price falls, and they've become more popular with mainstream investors since the crash. TD Ameritrade, for example, says derivatives, including options, now represent 35 percent of its trading volume, up from 20 percent at the end of 2009. But options also involve complicated calculations of probability, and investing pros say they can easily lose money, especially in the hands of the inexperienced. Steve Quirk, senior VP of TD Ameritrade's trader group, says newbie option investors frequently buy positions that are too big—not realizing how much they could lose—and hold them too long. (Straight-up stock traders make similar mistakes, Quirk is quick to note.)

For most newcomers, the learning curve is steep; the jargon alone, says Valle, is "complete gibberish." (Think "butterflies" and "iron condors," to name two examples.) In Valle's case, he

Photograph by Gregg Segal for SmartMoney

CARTER EDSON had all his ducks in a row for an ideal retirement. The Vietnam veteran had fully paid off and renovated his four-bedroom home, bought a couple of new cars and retired all his other debts. His retirement savings had hit a cool million. Another three years as an energy researcher, and he'd be ready to log more time on the golf course and take his wife to Paris. All in all, life was looking pretty good on Edson's Dixon, Calif., cul-de-sac—in the middle of 2007.

All this, of course, was before his family joined the ranks of those who took it on the chin in the Great Recession. Within a year, changes at his job had prompted Edson to retire earlier than he'd planned; then his daughter, recently divorced and unemployed, moved home with her two young children. Edson's nest egg might have been able to absorb his own early retirement, he says, but it didn't budget for diapers, preschool tuition or medical coverage for three more people. Suddenly, the 64-year-old found himself scrambling to make another $2,000 a month. And yet, even with the economy stuck in the depths, Edson didn't bother looking for a job. Instead, he entertained a notion that surprised his family and even himself—to borrow $100,000 against his house and open a stock-trading account.

A gregarious guy who's old enough to remember Dwight Eisenhower, Edson didn't fit anyone's stereotype of a computer-addicted, stay-at-home stock trader. And yet the more he mulled the idea, the more it seemed like a decent way for a smart person to make some money. His golf buddies had talked about their do-it-yourself trading successes, and Edson himself had made a nice chunk of dough off his own picks during the tech boom. After a few weeks of hunting for good stock ideas, he took the plunge—and promptly lost thousands of dollars on at least three occasions by hitting BUY when he meant to hit SELL. The experience awakened all his old misgivings about playing the market. "It went against every instinct I had as a child of Depression-era parents," says Edson. "But I was backed into a corner."

Since the primal trauma of the financial crisis, the average joe investor has been playing it safe with his portfolio, avoiding playing the markets even if it means missing out on a rally. And conventional wisdom suggests that people whose employment outlook is rocky should be even more cautious, avoiding risk to protect their savings. Meanwhile, a small but growing subset of investors is bucking not only conventional wisdom but, some critics would say, common sense. These folks have raided their savings, pooled their buyouts—even borrowed money—to invest in the very markets that helped threaten their retirement dreams and livelihoods. While more than half of Americans surveyed in a Prudential study last year said they had lost faith in the market, these intrepid investors are doubling down on it. They're deploying their cash full-time—in some cases, trading far more often than they ever have before—and trying to pay the bills with their winnings.

Nobody tracks exactly how many do-it-yourself investors there are, or how many of the 23.2 million Americans broadly classified by the Bureau of Labor Statistics as unemployed are dabbling in this field. But some other

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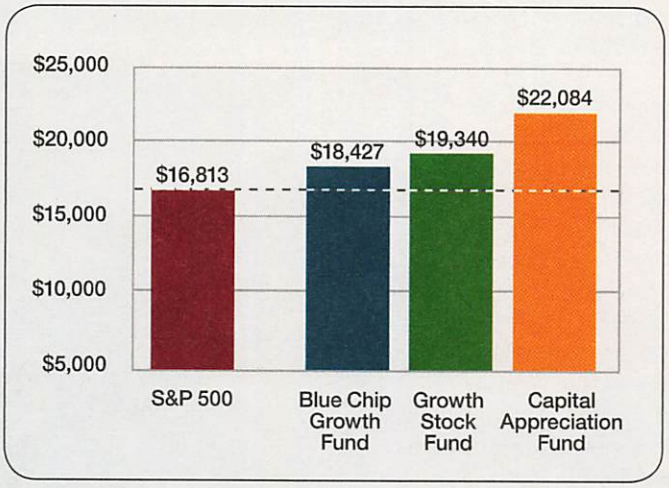
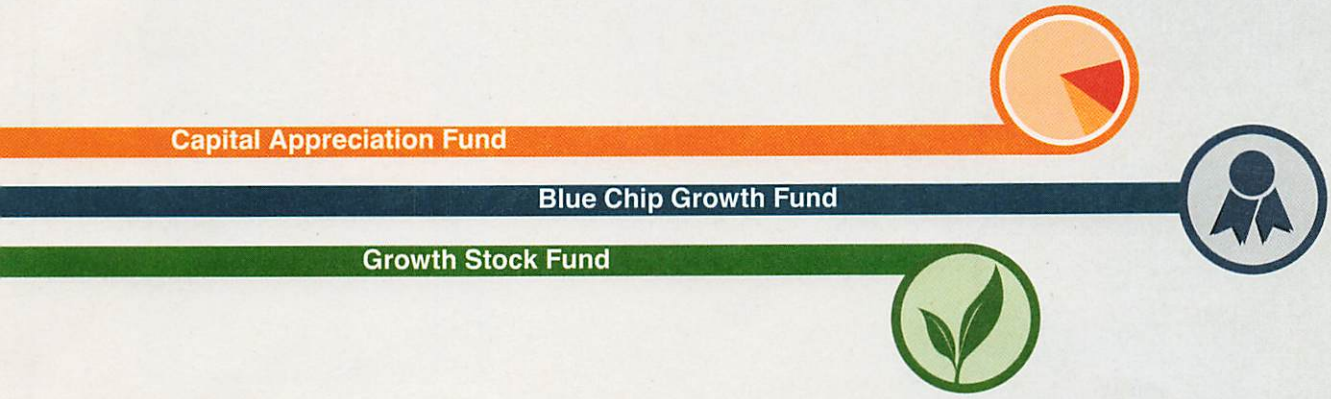


How much $10,000 invested would be worth. (based on the 10-year period ended 6/30/12)

*Based on average annual total returns for the 1-, 5-, and 10-year periods ended 6/30/12: S&P 500 1-year: **5.45%**, 5-year: **0.22%**, 10-year: **5.33%**; Blue Chip Growth Fund 1-year: **7.01%**, 5-year: **2.42%**, 10-year: **6.30%**; Capital Appreciation Fund 1-year: **4.34%**, 5-year: **3.49%**, 10-year: **8.25%**; and Growth Stock Fund 1-year: **6.58%**, 5-year: **1.97%**, 10-year: **6.82%**. As of 12/31/11, the funds' expense ratios were **0.77%** (Blue Chip Growth Fund), **0.73%** (Capital Appreciation Fund), and **0.70%** (Growth Stock Fund).

Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results.



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and-error periods for newbies—only about 30 to 35 percent of retail currency accounts turn a profit each year. And commissions on such trades can be higher than those on plain-vanilla stocks. Chris Allen, capital markets analyst at investment firm Evercore Partners, says that investors who use options or currencies are also more likely to borrow money "on margin" to make trades—at high rates that are highly profitable for brokers.

What's more, keeping the perks of active-trader status can prod investors to be active even when they'd rather stay put. One common arrangement imposes fees on customers who don't make a certain number of trades per month. James Anderson, an unemployed engineer turned trader, says he has often had to buy extra shares to avoid a $99 monthly fee for his trading platform. But trading more often, he notes, has generated tax expenses that might outweigh the fees he dodged. "It may end up a wash," he says.

The brokers say they're seeking a balance between revenue and customer service, using training to steer clients out of trouble. Brokers want customers to make educated choices, says Nicole Sherrod, managing director of TD Ameritrade's trader group; otherwise, she adds, "they can see substantial losses." But no matter how many safeguards brokers put in place, some critics say, one investing rule holds true: More trading isn't always a good thing. A study by Brad Barber of the UC Davis Graduate School of Management found that investors paid a "performance penalty" for active trading—during one 1990s bull market, when the market earned annual returns of 18 percent, investors who traded 75 percent or more of their portfolios annually earned only 11 percent. Trading too much, Barber says, can "be hazardous to your wealth."

ONLINE-BROKER BOOM

ONLINE BROKERAGES ARE LURING ASSETS FROM INVESTORS WHO WANT TO TRADE THEIR OWN STOCKS.

Total assets at online brokerages

2008 $1.7 TRILLIONS

2011 $2.5 TRILLIONS

SOURCE: AITE GROUP

AND FOR SOME BROKERS, ACTIVE TRADERS ARE BIG-FISH CUSTOMERS.

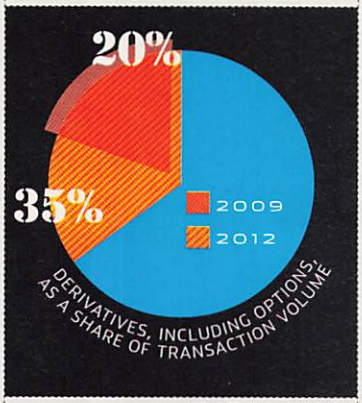
$122,000 *Average retail-account size*

$750,000 *Average active-trader account size*

SOURCE: CHARLES SCHWAB

POPULAR OPTIONS

OPTIONS, A POPULAR FULL-TIME TRADER INVESTMENT, ARE GETTING MORE POPULAR WITH SOME BROKERAGE CUSTOMERS.



SOURCE: TD AMERITRADE

POSTRECESSION PUSH

FALLING INCOMES, POSTRECESSION, HAVE PUSHED SOME INVESTORS TO CONSIDER PLAYING THE MARKET MORE ACTIVELY.

18% *Postrecession decline in earnings among workers who changed jobs*

AND THEY'RE WILLING TO PAY TOP DOLLAR TO LEARN THE TRICKS OF THE TRADE.

$8,500 *Average amount spent per student on trader training courses*

SOURCES: HENRY FARBER, PRINCETON UNIVERSITY; ONLINE TRADING ACADEMY

CASHING IN

ASSET GROWTH SINCE THE CRASH AT THREE OF THE BIGGEST PUBLICLY TRADED DISCOUNT BROKERS.

SOURCE: SANDLER O'NEILL & PARTNERS

THE ACTIVE-TRADER GOLD MINE

WITH A GROWING GROUP OF INVESTORS PLAYING THE MARKET MORE OFTEN, THE BROKERAGE INDUSTRY IS CASHING IN.

By Reshma Kapadia

LIKE MOST OF ITS COMPETITORS, brokerage giant Charles Schwab welcomes so-called active traders—and those who might want to become active traders—with open arms and a list of freebies. Want to take a "webinar" on options trading? There's no charge. Looking for the kinds of stock-picking and forecasting tools that used to be found only on the desks of professional stock sharks? They're yours, for free. Itching to stream quotes and research onto your iWhatever? It's on the house.

But all this generosity isn't motivated by altruism. At Schwab, active traders have an average account balance of $750,000—six times as big as the run-of-the-mill customer's. And as the industry has learned, these active types are their most lucrative clients, spending far more on everything from banking and mortgages to, of course, commissions on all those trades. In an industry that has survived lean times since the tech boom, these are the fat cattle. "It's a group whose needs you want to make sure you meet," says Kelli Keough, vice president of Schwab's active-trader group.

Thanks to the financial crisis, the brokers wooing this group have had a more-than-usually receptive audience. After sharp losses, many sophisticated investors ditched full-service brokers in favor of discounters that would let them trade on their own, analysts say; at the same time, many investors lost faith in "buy and hold" investing and considered trading more frequently to catch the market's ups and downs. According to financial research firm Celent, the number of investors who qualify as active—generally, those who trade at least 36 times a year—will reach 16 million this year, up almost 50 percent since 2007. Richard Repetto, principal at investment bank Sandler O'Neill & Partners, estimates that this small minority now accounts for about two-thirds of the industry's commissions and fees; in 2011, they generated more than $2 billion in revenue at the four largest publicly traded brokers alone. With so much money at stake, it's no wonder the do-it-yourself crowd has become the subject of a trading-technology arms race. Schwab and TD Ameritrade, for example, have paid a combined $1.6 billion over the past two years on active-trader-related acquisitions.

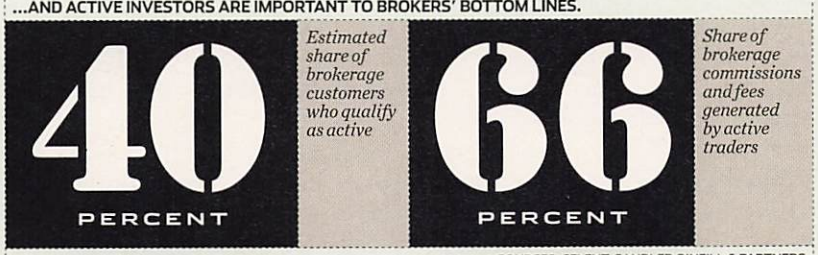
Still, as the brokerages acknowledge, many of these tools are aimed at encouraging investors to trade more—and that, critics say, can lead to unforeseen pitfalls and extra costs. Brokerages have been aggressive about promoting trading in options and currencies, for example, pitching them as investments that hedge against the volatility of the stock market. But both are relatively complicated transactions that can lead to expensive trial-

SINCE THE CRASH

THE NUMBER OF ACTIVE INVESTORS HAS SOARED...

SOURCE: CELENT

...AND ACTIVE INVESTORS ARE IMPORTANT TO BROKERS' BOTTOM LINES.



SOURCES: CELENT; SANDLER O'NEILL & PARTNERS

WEAK RETURNS

ACTIVE TRADING CAN HURT INVESTORS' RETURNS.

High-net-worth investors who say they buy and sell investments more than they should

SOURCES: BARCLAYS WEALTH; BRAD BARBER, UC DAVIS GRADUATE SCHOOL OF MANAGEMENT

took no fewer than 60 courses and webinars over the course of his first year, flying around the country from traders' expos in Las Vegas to an overnight class in the financial hotbed of... Mobile, Ala. And once he figured out which strategy he wanted to pursue, he spent six months trying to understand the logistics of it, practicing through trial and error on tiny trades. In all, he spent $40,000, almost a third of his seed money. Even that wasn't enough to insure him against trouble: After the flash crash of 2010, Valle ended the day down more than $10,000—a lot compared with his typical day, when his loss or gain tops out at $1,000. "It made my heart skip a beat," says Valle.

Since then, Valle has settled into a calmer routine—one he frequently practices from a Starbucks, since the alternative is working in his bedroom. He specializes in those iron condors, a maneuver that involves owning four different options on the same stock at the same time, improving his odds of making a little money regardless of how the stock moves. To cushion himself, he leaves as much as half the portfolio in cash. And he keeps a mobile phone within reach in case his trading software freezes. Indeed, Valle has now gained more than just confidence; he recently earned a license as a registered investment adviser—with the aim of investing other people's money in options.

But while his confidence is high, so is his anxiety level. Valle finds himself putting in hours that would have seemed unfathomably long to him before—staying up until 2 a.m., for example, to get a heads-up on action in the European markets. Andrew Menaker, a San Francisco psychologist who works with traders, says that kind of behavior can start a vicious cycle that can hurt an investor's returns: "Lack of sleep alters the way we assess risk," he explains. Of course, Menaker adds, having to live off of your winnings just adds to the stress. Valle says he recently took up boxing to work off the pressure. "There are thousands of ways to lose money," he says. And there aren't many people he can confide in: His career alarms his parents so much that he avoids discussing it with them. That makes it all the more important, he says, that he attain one of his next financial goals: buying his own home.

STOCKS AND GRANDKIDS

CARTER EDSON, 64

Waking at 6 a.m., Pacific time, Edson turns on his computer, firing up multiple screens while waiting for the market to open. The action takes place not in his home office, but in the dining room—Edson keeps his desk there so he can keep an eye on his grandchildren as they play in the living room. Sometimes the kids crawl onto his lap, mesmerized by the colorful graphs and numbers blinking on his screens. They may be adorable, but cuteness can be expensive: On a couple of occasions, the distractions have led Edson to make costly mistakes, such as inadvertently hitting that BUY key—a serious blunder for a would-be market timer. (He now has a cheat sheet of keyboard shortcuts.)

NAME: **CARTER EDSON**

PREVIOUSLY: *A researcher at Chevron. When the economy tanked, he wound up retiring three years earlier than he'd planned.*

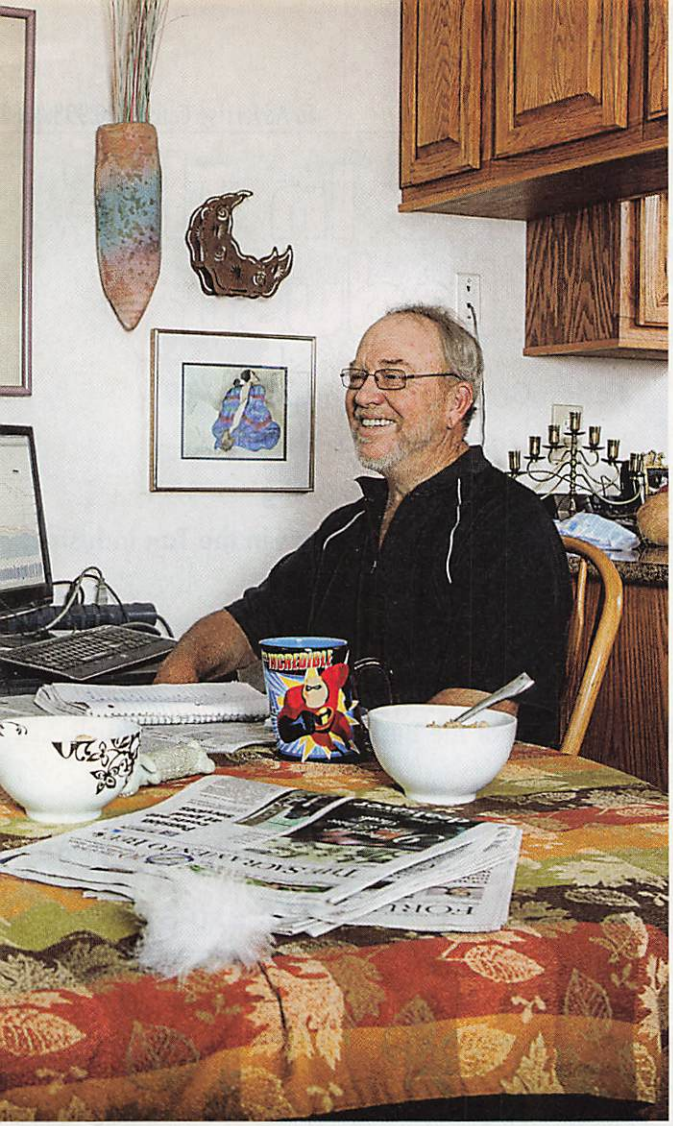
PRESENTLY: *Trades a handful of stocks from the table of his dining room, where he keeps an eye on—and is sometimes distracted by—his two grandkids.*

WHAT'S NEXT: *Making it a few more years without tapping his retirement savings.*

Unlike Valle, Edson didn't plunge into intensive training to learn how to trade; if anything, he looked to the past. He started by combing old statements from his retirement portfolio and zeroing in on stocks that he'd become familiar with, like casino operator Las Vegas Sands and semiconductor maker Atmel, which he had owned during the tech boom. From Edson's point of view, the financial crisis had a bright side: These stocks, which he already liked, traded at long-time lows. He decided to keep a portfolio of just five or six stocks that he'd watch closely, buying on dips and selling when they surged, acting as what the pros call a swing or momentum trader. That also meant, though, that Edson would sometimes wind up trading more frequently than he'd intended to if one of his stocks had a particularly volatile day. He knew he'd crossed a line on the day his brokerage informed him that he qualified as a day trader. Getting that label, Edson says, felt like "the kiss of death."

Edson's ominous feeling isn't totally off-base. According to Barber, the professor who studies investors' trading habits, the losses, taxes and expenses associated with overactive trading cost investors as much as three percentage points a year—enough losses to mean that, in most cases, they'd do bet-

Photograph by Toby Burditt for SmartMoney



ter just buying index funds. The good news, experts say, is that trading relatively few stocks, as Edson does, can offset some of those disadvantages. Indeed, some mutual fund managers have argued that they've earned better returns by holding on to such so-called concentrated portfolios. "People who jump from strategy to strategy tend to do worse than those who stick to one or a few," says Javier Paz, a senior analyst at Aite Group who also traded professionally for more than a decade.

Then again, a concentrated portfolio can also concentrate your losses. Early on, Edson lost $12,000 in a single day, thanks to a horrific earnings report for Las Vegas Sands. But at least days like that have been relatively rare. Edson says that over the past four years, his trading has provided some much-needed financial breathing room; on one occasion, he made $2,000 in a day by buying and selling a volatile energy stock, and used it to finance a badly needed car repair. Today, he has paid off 40 percent of his original loan and made enough to rent his daughter a house down the block, to help her get on her feet as she starts a new job. With the market more volatile of late, he's trading a little less: Lately, he turns on the computer in the morning to check on Atmel, does a quick search for any other "slow and steady" stock opportunities, and backs away. "I don't have the expertise" to sort through Europe's debt drama, Edson says.

THE IMPULSIVE TRADER

JAMES ANDERSON, 55

It's an internal struggle that gives James Anderson angst almost every day—the choice between selling a position and banking his profits, or staying a bit longer for the chance to earn a bit more. And time after time, it comes back to bite him, especially when his winning streaks are cut short by harsh losses. Investing roughly equal amounts in stocks and options, Anderson once gained $150,000 over a three-month stretch; he also lost $24,000 in a single week. The instability is ironic, given what Anderson used to do for a living: He was a geologist, testing soil at California construction sites to make sure the buildings wouldn't imitate the Leaning Tower of Pisa.

The housing market implosion cost Anderson his job in 2009, and not long afterward he attended ProTrader, the most popular course at the Online Trading Academy. Along with other wannabes, Anderson was immersed for a week in interpreting economic indicators, using trading platforms and learning to read technical charts. Intrigued, he even worked with an independent investing coach via phone, at $1,500 a month, though he eventually felt frustrated with the attention he wasn't getting. (During one conversation, Anderson says of the coach, "I think he was actually shoveling snow.") But for all his training, Anderson says, he still struggles to grasp some of the behavioral rules of being a good trader. His instructors urged their students to set target prices—specific price points at which to sell their positions. Still, Anderson says he often abandons that key guideline in the heat of the moment. "It's about mastering the mental game," Anderson says, admitting that he isn't there yet.

Psychologists and trading experts say that emotional pitfalls like Anderson's are common. Denise Shull, a former professional trader who now coaches other investors, says newbies often find themselves unable to walk away from their screens, convinced that they'll miss the greatest trade of their lifetime if they leave. And many academic studies have shown that, for similar reasons, many traders are unable to pull the trigger and sell once their investments start losing money. Paz, the Aite Group analyst, says that one of the most important learning processes for traders is to use virtual or demo accounts to "condition their mind" to trade mechanically rather than emotionally.

But temperament is hard to teach, and Anderson says he's not likely to become a cool-headed rationalist. For now, he's continuing to toggle between elation and self-flagellation. As recently as January, he was running out of money for basics like rent. The market's spring rally put him into the black, but within weeks, Anderson found himself on the wrong side of several trades—including Facebook's initial public offering, which he bought even after telling friends not to go near it. ("I thought it was going somewhere," he says softly.) Despite the nagging feeling he should take a break, Anderson can't give up the market. When talking about stocks, he says, "I sound like a religious fanatic."

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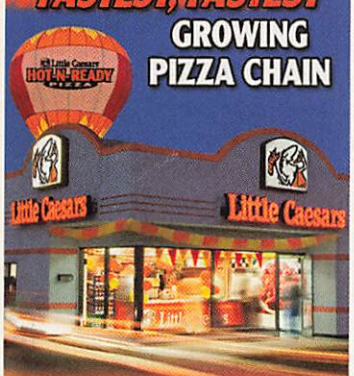

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PUTTING AN END TO VACATION INFLATION

Timeshares are a great solution – for many reasons

BY IYNA CARUSO

We've all been there. Your vacation is drawing near, you haven't made any plans and by now, your choices are limited. Or maybe choosing a destination, along with budgeting and mapping it out, feels like a second job. The most exhausting part: doing everything within your power to avoid disappointment — like when the accommodations don't live up to the glossy website images. In any given year, it's more than many of us want to deal with.

So you stay home. And then you kick yourself, swearing you will plan ahead the following year.

It's a pretty common scenario, and it's the reason the timeshare model is so appealing to so many. Today, there are more than 1,500 timeshare resorts in the U.S. and 5,000 worldwide. Americans own 8.4 million timeshare "intervals," or periods of time, according to the American Resort Development Association (ARDA), the national trade association of the vacation ownership and resort development industries. Timeshare is based on a simple premise: instead of merely renting a room at the hotel, vacationers buy a piece of the property itself.

In a traditional timeshare, consumers make a one-time purchase of an interval, which is typically one week, in a furnished condominium, villa or vacation accommodation. Timeshares are either sold on a deeded basis (the most common), providing the buyer ownership rights in perpetuity, or on a right-to-use basis. Similar to a lease, this scenario gives the consumer the right to use the resort for a period of time, anywhere from 15 to 99 years. During the period, consumers can transfer, rent or bequeath any remaining years of the contract.

Fractional ownership is another deeded arrangement, but one that covers a larger span of time per year, such as one, two or three months annually. Generally, fractional ownership is considered a luxury product and can cost $100,000 or more. As a result, it's really less an alternative to timeshare and more an affordable and lower maintenance option to second-home ownership.

From an investment perspective, a timeshare is considered to be a financial hedge against vacation inflation, rather than an appreciating asset. Hotel room rates rise, but a timeshare locks in the cost of today's vacations. The longer a unit is owned and

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Newport Coast Villas Newport Coast, California Marriott Vacation Club

the more it's used, the greater the value proposition. Susan Smith, a legal secretary in New York, bought a timeshare at a Lake Buena Vista resort in Florida in 1993. She says when she goes away with family members and stays in a two-bedroom unit that sleeps eight, a comparable hotel room "would run between $650 to $750 per night, so we do see a great savings."

Timeshares have a distinct value beyond the financial aspects. Owners view them as a lifestyle investment, a pre-paid vacation where the legwork — and guesswork — is gone. Knowing they have a specific block of time paid for is the best incentive, owners say, to actually get up and go.

"It's the assurance that it's not a matter of *if* you're going, but when and where," says Ed Kinney, vice president at Marriott Vacation Club.

A NEW APPROACH

These days, the "where" is an astounding array of choices. There are timeshare resorts in 106 countries, and the opportunity to switch up the scenery is a major draw. Beach locations are the most popular but resorts are everywhere: on tropical islands, in deserts, by state parks or golf courses, and in the heart of ski areas and wine country. Increasingly, they're found in urban centers like New York, Washington D.C., San Francisco and Las Vegas — any city where people look forward to returning year after year. Franz Hanning, president and chief executive officer for Wyndham Vacation Ownership, a leading timeshare developer with 160 resorts and more than 800,000 owners, says its urban properties enjoy the company's highest occupancy rates.

There are timeshares to suit just about any vacation experience desired, with accommodations that run the gamut from upscale rustic to eclectic to opulent. Many resorts are more luxurious than an owner's primary residence.

While timeshare was founded on the idea of buying a specific-sized room with a specific view at a specific resort for a specific time block, the industry has made a dramatic shift to flexible scheduling — an anywhere, anytime paradigm using points as vacation currency. Basically, it marries the certainty of the timeshare model with the flexibility of a hotel booking.

"People loved the idea of owning their vacation properties and having condominiums to stay in as opposed to hotel rooms. But overall, they like the idea of how hotels are run a lot better than the original, fixed-week

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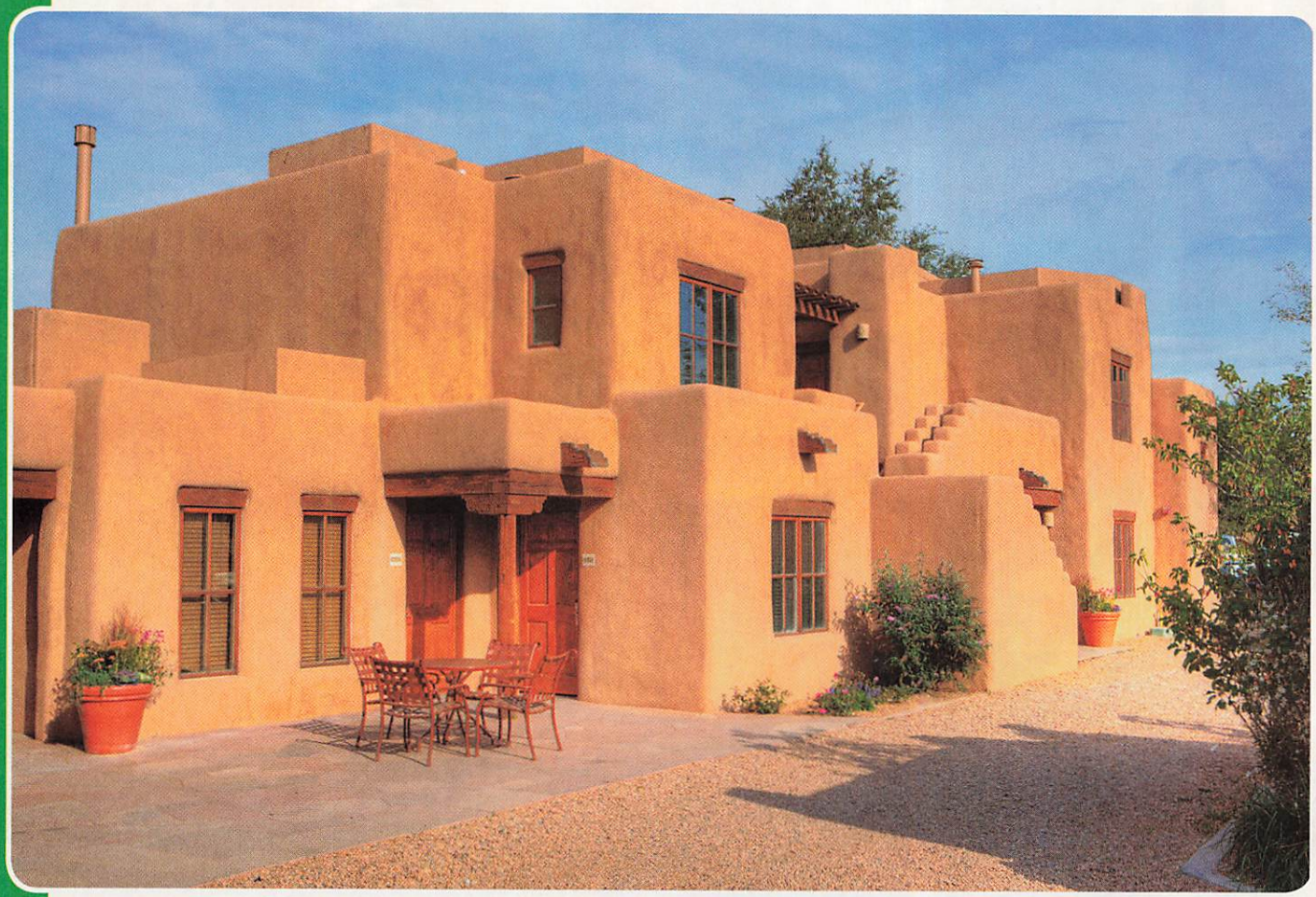

WorldMark Santa Fe Santa Fe, New Mexico Wyndham Vacation Ownership

timeshare system," says Hanning. "Our current points-based system allows for more usage options and more closely resembles how people want to take vacations."

Each accommodation is assigned a point value based on unit size, length of stay, location and seasonality. Consumers buy points based on projected vacation needs and use the points in whatever combination makes sense. They can book a one-week vacation or a series of weekend getaways throughout the year. With the ability to bank, borrow or buy points, owners can add an extra week, upsize a studio to a three-bedroom villa or swap a stay in Branson for Bangkok.

As the number of exotic timeshare destinations multiplies, the point system gives owners a chance to explore new terrain and different types of vacations. There are timeshare opportunities in posh resorts with sand and surf but also in wooded retreats in the Blue Ridge Mountains and even a stone abbey in Ireland. Major timeshare companies allow owners to swap points for adventure and cultural travel experiences like whitewater rafting trips, touring the Great Wall of China, African safaris, Mediterranean cruises and even flights in fighter jets. In some cases, owners can take a "staycation" and swap their points for local attractions such as movies, concerts and golf.

A CHANGING INDUSTRY

The timeshare industry has come a long way since its European-based origins in the 1960s. Around the same time a French developer offered shares in its ski resort in the Alps, a Swiss company began buying resort properties in Spain and Italy and offered membership on a right-to-use basis. In the U.S., Hawaii and Florida were the first two states to introduce timeshare programs and they remain among the most popular destinations to this day.

The industry, however, has had its challenges. "A stigma was attached to timeshare," concedes Don Clayton, chairman, co-founder and chief executive officer of Festiva Hospitality Group, a timeshare firm with more than 70,000 members and 24 boutique resorts in the U.S. and Caribbean. The stigma wasn't related to the quality of the product, he says. Rather it was "unscrupulous developers of an unregulated product. There were people who took the money and ran. That's been corrected for a couple of decades."

This fading misconception is one of the reasons that today, timeshare firms are "dedicating an inordinate amount of time and effort ensuring the delivery of

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quality vacations," says Tracy L. Sherles, president and chief operating officer at Shell Vacations, with 115,000 interval and club members at 24 resorts across North America.

In decades past, the industry had also developed a reputation for its high-pressure sales tactics. Owners were ultimately happy with their purchase — satisfaction rates hover around 83 percent, according to ARDA statistics — but they were put off by the acquisition experience.

A turning point came when a household-name corporation entered the industry. In 1984 Marriott became the first major hospitality brand to plant a foothold in the business.

"We saw tremendous promise," says Kinney. "We knew when we first started that we couldn't run the risk of having a customer not wanting to come back to our hotels. We used a dramatically different approach to marketing and delivering information to help customers make their ownership decision."

Marriott now has more than 54 vacation clubs throughout the world and 416,000 owners. After Marriott, other powerhouse brands followed suit. The confluence of stricter regulations, the influence of a professional trade association, the credibility of companies with brand equity and the surge of timeshare developers holding their salespeople to higher standards would come to elevate the entire industry.

As a result, consumer confidence rose. And sales took off.

AN EXPERIENCE TO BE SHARED

One area in which timeshare sales continue to skyrocket reflects a burgeoning trend in the travel industry: togethering.

Togethering is trip-speak for group travel — mom, dad and the kids, yes, but just as often it involves travel by a more expansive circle of friends, couples and partners. "It's the idea that travel is something I want to do with the people I love," says Howard Nusbaum, president and chief executive officer of ARDA. "It's about a shared purpose and sense of community."

Over the years, Florida timeshare owner Smith has used her points for a studio, a one-bedroom villa and a two-bedroom villa, depending on the size of the crowd she's traveled with. "We have been owners for such a long time that when we started going with my friend's nephew, he was a teenager. Now he is married with children of his

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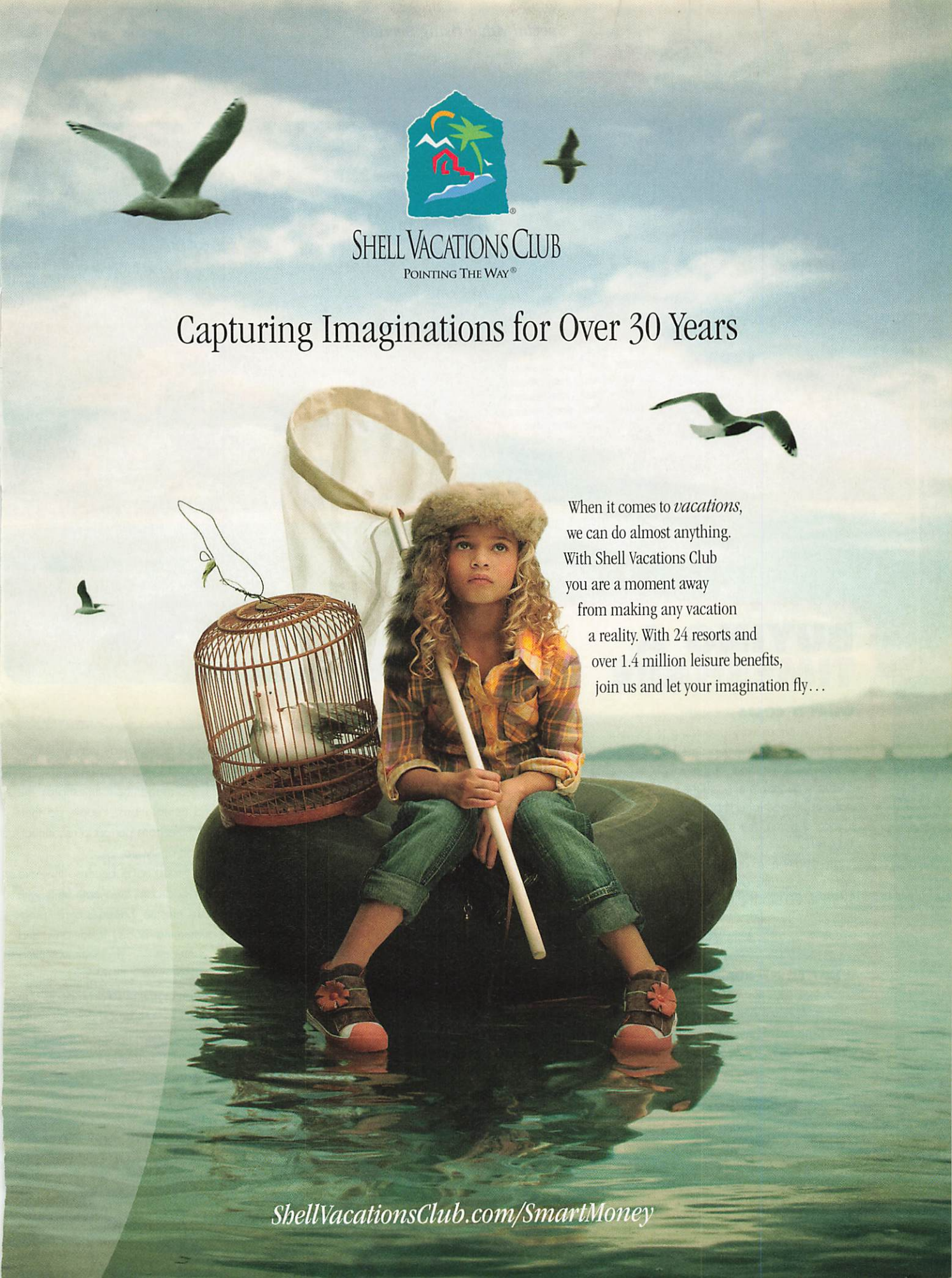
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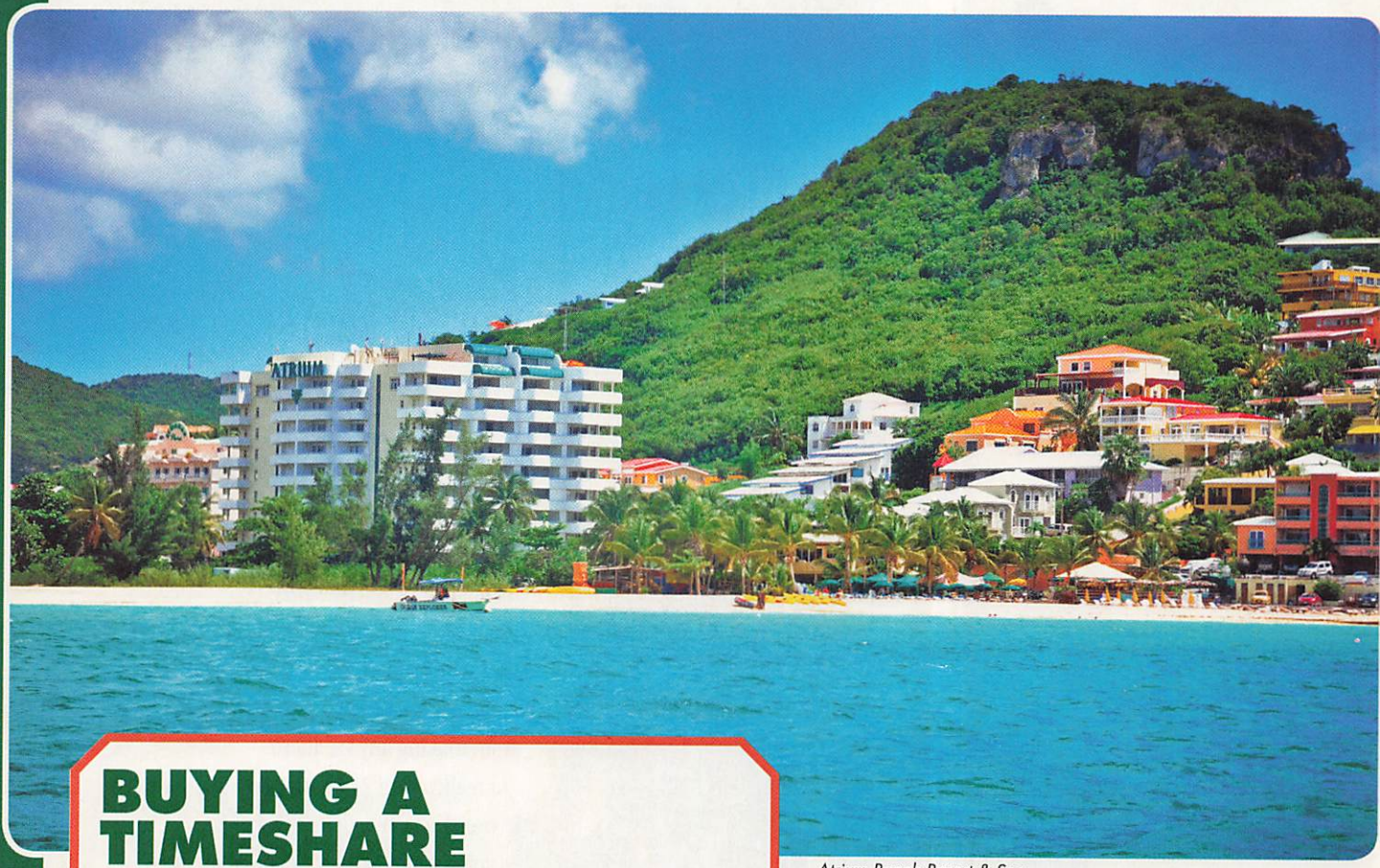

Atrium Beach Resort & Spa
St. Maarten
Festiva Hospitality Group

BUYING A TIMESHARE

WHAT IT COSTS

While prices vary according to location, unit size and seasonality, the average cost for a week of timeshare use last year was $18,401, according to ARDA's 2012 State of the Vacation Timeshare Industry report. Financing is usually available through the resort itself or a third-party lender, with rates that tend to be higher than traditional home mortgages. However, similar to a second home, the interest is often deductible. Terms range from three to 10 years.

In addition to the purchase price, owners pay an annual fee for maintenance, improvements and property management, which averaged $786 in 2011. The fee typically includes escrow for refurbishing projects that are scheduled at pre-determined periods. Painting at a resort, for instance, may be done annually, while a major remodeling project may be slated every 10 years.

WHAT TO KNOW

Sherles says that before consumers buy, they should verify the timeshare resort company is a member of the American Resort Development Association (arda.org). "Association members agree to adhere to ARDA's code of business ethics," she says. "ARDA also has a companion website, VacationBetter.org, which provides information about timeshare products and options to help consumers make the right choice for their particular vacation needs."

Other places to research: Companies with long track records and affiliations with RCI and Interval International, both well-known timeshare exchange networks, are strong signs of a resort developer's credibility and stability, according to Sherles. Consumers can also check Better Business Bureau ratings as well as credible online timeshare forums to see what's being said, both good and bad. For prospective owners, the transparency of the Internet works in their favor, provided the sources are valid.

own, and we have the pleasure of going away with his whole family."

Smith and many others have made their timeshares the setting for annual reunions and celebrations. People go their own ways all year and use their timeshare period to reconnect, to put in place a building block of family life.

Timeshare units work well for group travel because they are designed for spreading out. Two-bedroom, two bath units with full-size kitchens and living rooms are the industry's core "product." Resorts typically have swimming pools, restaurants and activity centers, which means everyone can do their own thing on their own schedules. Many are near cultural sites, natural wonders, quaint towns and other amusements so daytrippers can get their fill, while the less ambitious in your brood can get some well-deserved R&R. The "something for everyone" approach is especially appealing to multigenerational travelers — those who may have grown kids with young kids of their own in tow.

Parents wanting to spend quality time with their children is a given, but "grand-boomers," in particular, want to be involved with their grown children and create a legacy they can pass on.

"It's a new vision of retirement," says Nusbaum. "A compelling way to keep the family together by vacationing with larger groups of friends and family. And with increased flexibility, timeshares now give owners a chance to use vacation currency to answer their own wanderlust."

Life is better on vacation.

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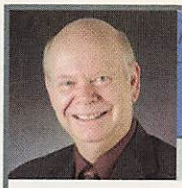

SPECIAL MARKET OPPORTUNITY

First Federal

Your Expert Guide to the World's Finest Coins

Nicholas J. Bruyer, Chairman & Founder, First Federal Coin
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$5,190 for an Ounce of Silver Bullion? Impossible!

10 years ago I'd have called you crazy to make such a prediction. Yet today it's a fact. Now our deal with a $4 billion precious metals wholesaler nets you a great deal for America's hottest ounce of silver!

It wasn't more than ten years ago that we met with former U.S. Mint Director Donna Pope. She spoke with pride about what she considered to be her greatest achievement as Director under President Reagan: Creation of the American Eagle silver and gold bullion coin programs, the first of their kind in our nation's history.

The purpose of these coins was to give people the opportunity to own physical silver and gold in a form certified for weight and purity by the U.S. Mint. While the bullion coin program was a signal success, nobody took into account the profound effect it would have on the collector market.

Silver Eagles = Today's Morgan Dollars

In the 1800s and early 1900s, the U.S. Morgan Silver Dollar was struck year upon year at various mints and circulated at face value. Their core value was in their precious metal content. However, in top grades, Morgan Silver Dollars can sell today for tens and even hundreds of thousands of dollars each!

For the same reason, many collectors today see the Silver Eagle series as a literal "ground floor" opportunity to acquire the top-grade coins as they are released. They started submitting Silver Eagles to the leading independent coin grading services, such as Numismatic Guaranty Corporation (NGC), praying that the coins would come back with the highest possible grade: MS70 (all Uncirculated coins are graded on a point system from a low of 60 to a high of 70, with 70 representing flawless perfection). Of all the Silver Eagles produced by the U.S. Mint in 2011, less than one out of every 788 earned the NGC MS70 grade!

MS70 = $$$$$!

In the rarified atmosphere of MS70, Silver Eagles have soared to market prices that I can only characterize as surreal. Consider this: MS70 Silver Eagles have been selling for truly stratospheric prices. Here are just a few eye-popping examples:

1996 MS70 Silver Eagle ***$5,190*** (NGC population:128)
1988 MS70 Silver Eagle ***$2,560*** (NGC population:193)
1991 MS70 Silver Eagle ***$4,060*** (NGC population:118)
1994 MS70 Silver Eagle ***$1,660*** (NGC population:175)

Of course, the population of these MS70 coins is smaller because they are examples of the finest coins.

It Just Keeps Getting Better

I was thrilled to lock up a guaranteed supply of Perfect Gem MS70 2012 Silver Eagles from a primary distributor. Moreover, every coin is certified and encapsulated by NGC, one of the top two firms for grading coins. But better yet, because these coins were among the very first released, they all have the value-enhancing "First Releases" designation.

Actual size is 40.6 mm

What Does "First Releases" Mean?

NGC designates only those coins it certifies as having been released during the first 30 days of issue as First Releases. Collectors place a premium on these coins because they are struck from freshly made dies, which is thought to impart superior quality. Only a miniscule number ofthe mintage gets the First Releases pedigree - so it can turbo charge the value of an already valuable MS70 coin.

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The strange joys of medical self-testing.

Photograph by Mark Peterson for SmartMoney

The Rise of the Haute Hotel

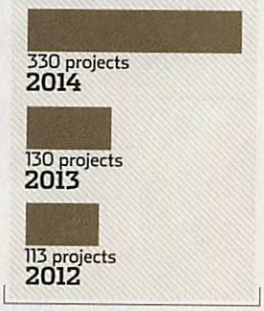
As the lodging industry rebounds, big-name brands are checking in. Why everyone from top designers to sushi chef Nobu wants to be a hotelier. By Kristen Bellstrom

YOU MIGHT SAY that Susan Lorin dresses for comfort when she's traveling. In fact, the New York City attorney herself puts it more bluntly: "I look like a bag lady." On a recent trip to Scotland, though, Lorin found herself in the unusual position of fretting over her vacation attire. ("I really was nervous about it," she says.) Why the sartorial angst? She was checking into the Hotel Missoni, a posh property that's part of the Italian fashion brand.

Pack your bags, label snobs. In one of the little-noticed but quirkier travel trends of recent years, brands best known for sequin gowns and logo-bedecked handbags are slapping their names on the marquees of high-end hotels across the globe. For the clotheshorse, there are the haute couture hideouts, like Palazzo Versace (Gold Coast, Australia, and Dubai, United Arab Emirates) and Armani Hotels (Milan and, yes, Dubai). Prefer bling? Bulgari Hotels and Resorts cater to vacationing jewelry fiends in London and other hot spots. The trend has taken a new turn lately, with brands outside the world of fashion also trying on the hotelier hat. French crystal maker Baccarat says it's planning a property in New York City, while the first Nobu Hotel is slated to open in Las Vegas this fall—no word yet on whether the sushi impresario will be replacing the pillow mints with yellowtail sashimi.

Luxe on Deck

The number of luxury hotel launches is projected to nearly triple by 2014.



There's a simple reason some of the world's snootiest companies are getting into the business of changing sheets and making wake-up calls: the economy. When the hospitality industry is booming, say experts, new brands tend to spring up, hoping to cater to an untapped niche. Still, standing out from the crowd has gotten tougher: Since 2005, 27 new hotel brands have been announced, according to industry research firm Lodging Econometrics, which now tracks a whopping 250 brands in the U.S. (not including casino hotels). Some say that teaming up with a luxury company can provide a rare competitive edge to both sides. The brand that puts its name on the stationary gets to expand its reach, says Robert Mandelbaum, a director at PFK Hospitality Research, while its lodging-company partner gets a fresh tool to tempt luxury travelers.

Of course, even though companies are celebrating these new "synergies," travelers may get less of a thrill mixing shopping and sleeping. To begin with, it isn't always clear who's in charge. In fact, most

Signature to Saturation

The bright colors and zigzag patterns that this Italian fashion house is known for are emblazoned everywhere, from the chinaware in the restaurant to the ***Scottish kilts*** worn by its Edinburgh concierges.

MISSONI

ARMANI

Minimal to Invisible

The hotel takes its clean-line design to the extreme, with ultramodern sofas and closets that "disappear into the walls." But beware: The ***neutral decor*** amplifies any sock not in its place.

designer hotels are actually run by an owner or hospitality firm rather than the famous name. But while that might be reassuring (after all, what does a necklace designer know about running a hotel?), vacationers often find that the big names don't always offer all the usual lodging-company perks, like loyalty points or treats for frequent travelers. And fashion obsessives, for their part, could be disappointed to discover that while design houses update their look every season, hotels get a makeover more like once every five years or so—if they're lucky.

odging for Labels

ROOTS OF today's designer hotel n be traced back to a strip of ustralia, waterfront, where o Versace (with rooms 00) opened in late ne hotel was—surprise!—the result of a shopping spree, says general manager Russell Durnell. After a long day at the mall, it occurred to the 24-year-old son of the property developer that Versace is one of the few designer brands that makes furniture, linens, glassware, cutlery and more—in short, everything you need to outfit a hotel. Development firm Sunland Group approached the designer and the pair struck a deal: Sunland would own and operate the hotel, while Versace would sign off on the design and get an on-site shop that carries its regular goods, as well as a special line of Palazzo Versace–branded products. In addition, Durnell says, the hotel tries to provide guests with a taste of "the Versace lifestyle." One recent offering: an Italian-style picnic outing on the hotel's custom-made Vespas.

Today, the famous-name-hotel movement is spreading to more specialty brands. Baccarat recently announced a partnership with Starwood Capital Group to open a Baccarat Hotel in New York City in 2014. Launching a hotel—and packing it with the company's products, a store and a Baccarat-branded spa, bar and restaurant—will let consumers "spend more time with the brand," says Baccarat CEO Markus Lampe. He also hopes that it might change the company's stuffy image. "Many people might know Baccarat as a historical brand and might even think it's old-fashioned," says Lampe. The hotel, he says, will be full of the company's modern glassware, chandeliers and more. "Guests will see the brand from a different perspective," he says.

Jacey Duprie wasn't so sure she wanted to check in to an exercise in 24-hour-a-day branding. Indeed, the Los Angeles fashion blogger says she wouldn't have honeymooned at the Bulgari Resort in Bali were it not for the recommendation of a local friend. But to her surprise, the hotel didn't scream "designer." "The towels didn't have big Bulgari logos all over them, Ed Hardy–style," she says. So while Duprie says she never set foot in the hotel's jewelry boutique, she was impressed with the Bulgari's food, service—including a personal butler—and luxurious private villas. "The bathroom was bigger than our condo," she says.

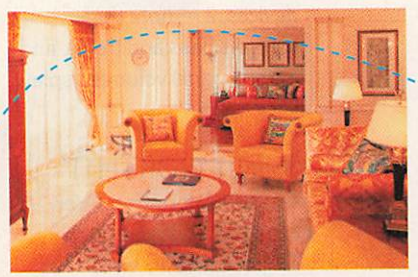
Of course, fashion is a fickle business. And some of the hotels that have aligned

PHOTOGRAPHS BY ANTONIO SCATTOLON/AFP/CONTRASTO/REDUX (INTERIORS)

themselves with luxury brands are discovering that even though it's great to ride a big name's coattails when it's hot, that relationship can be a drag when the cool kids have moved on. "Brands wane and have their moments in the sun," says the Palazzo Versace's Durnell, who admits that Versace is no longer the powerhouse it was in the late '90s. Hotels have experimented with different strategies to stay relevant. Some stick to only the brand's most classic looks (think Armani minimalism or the iconic Missoni chevron print) to avoid seeming dated. When all else fails, they can always wait for the first rule in fashion to kick in: Everything old is eventually new again. The latest Versace collections are "quite retro," says Durnell: "We're back at the height of fashion!"

For travelers, the hotels can offer more-mundane problems. Frequent travelers who live and die by brand-loyalty points may be irked to see that even properties that are part of large hospitality companies, like the Hotel Missoni (owned by Radisson's parent firm) and Bulgari Hotels & Resorts (Marriott International), do not permit travelers to earn or redeem loyalty points. Missoni says it plans to change this policy soon, while Bulgari responds that Marriott's role in the joint venture is to provide service and operational expertise, not to share reward programs.

In some cases, guests say the designer's influence may be a bit over the top. James Rooney, a London hospitality consultant, says that when he checked into the Armani Hotel in Dubai, the usual two-minute room tour (during which a staffer typically explains how the remote works and where to find the hair dryer) turned into a 15-minute slog, with the employee pointing out everything that had any connection with the designer—"even down to the coffee packets with the Armani logo." The whole room, he says, seemed laid out to match the designer's aesthetic, rather than a traveler's needs, with impractically low lighting, a tiny closet and few places to put belongings. (A hotel spokesperson says the room design "reiterates Mr. Armani's vision," adding that most guests "take great interest in knowing the features that the fashion maestro has created.") The one-night stay was enough to convince Rooney that the marriage of hotels and luxury brands still has a ways to go. "The image outweighs the guest," he says. S



Concierge to Cashier

Want to take home more than just your hotel robe? Palazzo Versace sells a line of ***hotel furniture*** and linens, including bed duvets ($560) and lush towels for the pool ($185).

VERSACE

Symphonic Skills

$

NOT BAD

Private Lessons

WANT TO TICKLE the ivories on something other than your office keyboard? Private music lessons start at around $35 a session, though top teachers can bill up to $150 an hour. While a reference check is a must, experts say, choosing an instructor who's accredited by the Music Teachers National Association is a good start. The equipment matters too: New York's Third Street Music School Settlement suggests that before dropping, say, $1,400 on a double French horn, customers try out several.

$$

GETTING FANCY NOW

Professional Courses

IF ONE-ON-ONE music instruction isn't for you, several prestigious conservatories offer classes to the public with the same professors who teach their competitive degree programs. Berklee College of Music in Boston has online, performance-based courses in guitar, keyboard and drums starting at $1,200 for 12 weeks. Or for those who prefer the baton, Juilliard offers a class in orchestral conducting for $800.

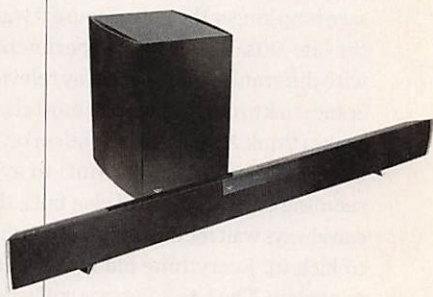
$$$

LIFE-CHANGING

Music Vacation

FOR A MORE LAID-BACK approach, a musical vacation may be more in key. The Alpine Chamber Music Festival in Liesing, Austria, accepts amateurs and pros alike for 12 days of rehearsals, private coaching and concerts. It's $1,800 to attend, though lodging and first-class airfare can tack on $20,000 more. Participants must audition to attend. But even rank beginners can audit the program—which includes extracurricular perks like wine tasting and hikes into the Austrian Alps. *—Tania Karas*

YOUR MONEY'S WORTH
SOUND-BAR SYSTEMS



▲ WORTH IT

Vizio VHT215 $270

If the neighbors aren't complaining, then your home theater isn't loud enough. A sound bar can fix that. This sleek model has two inputs for HDMI (high-definition multimedia interface) devices, a remote that controls bass and treble, and a front-panel volume display.

▼ NOT WORTH IT

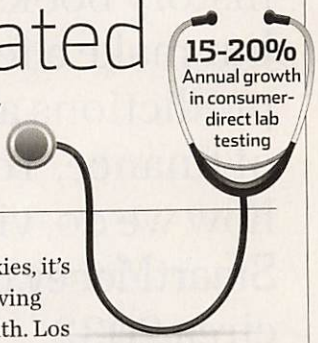
Boston Acoustics TVee Model 25 $350

This sound bar, which has no front volume display or HDMI inputs, doesn't work well with all TVs, experts say. The company acknowledges that some flat-screens don't support its technology, but says its sound quality puts cheaper models to shame.

—Saumya Vaishampayan

PHOTOGRAPH COURTESY OF THE ALPINE CHAMBER MUSIC FESTIVAL

"Our fascination with self-monitoring has created the lab-test junkie."



ANNE KADET is a senior writer at SMARTMONEY and the Metro Money columnist for *The Wall Street Journal.*

NICK MAVRICK always gets an annual physical and a full blood screening—and that's vigilance aplenty for his doctor. But not for Mavrick. Every three months, the 42-year-old marketing consultant drives to a local lab in Fort Lauderdale, Fla., to order his own tests—for cholesterol, vitamin D and testosterone. He's training for a marathon, and he says monitoring his own blood chemistry helps him stick to a training regimen. Besides, the quarterly progress reports are fun: "It's fascinating what you can learn from your own blood!"

The falling cost of lab tests and the nation's growing fascination with self-monitoring has produced a strange new phenomenon: the lab-test junkie. David Lovely, CEO of Health Testing Centers, one of about a dozen outfits offering tests directly to consumers, says customers like Mavrick—"compulsively obsessed by the numbers"—are his favorite. And they come in so many flavors. There's the antiaging geeks tracking their hormone levels, the athletes looking to quant their way to peak performance, and the hypochondriacs seeking the ultimate diagnosis. Then there's the "hypercompetitive guy who wants the best cholesterol around." He can't stop ordering tests—and discussing the results at cocktail parties.

The $65 billion lab industry is growing 6 percent a year, says research outfit G2 Intelligence. And the consumer-direct segment is increasing even faster—15 to 20 percent annually—as consumers jump at the opportunity to buy an $85 "toxic element exposure profile" or a $460 STD package, which screens for 11 different love bugs. Indeed, the nation's appetite for lab data seems insatiable. A recent Mayo Clinic survey found that 90 percent of patients would like to review their own lab results—ahead of their doctor. Consumer guide Lab Tests Online attracts 2 million visitors a month. And in states like New York, where you can't order a test directly, labs just over the border do a brisk business catering to outlaws.

Most tests are still ordered by docs screening for disease, of course. But for test junkies, it's about achieving perfect health. Los Angeles nutritionist Chris Talley says his clients happily order up semiannual nutritional screenings covering more than 300 variables—at $1,000 a pop. For some, there's nothing more satisfying than a two-hour review of one's cadmium levels, food sensitivities and arachidonic acid–to–eicosapentaenoic acid ratios.

Advocates say the trend empowers consumers. It's a wonderful world we live in, where anyone can get a quick fungal-balance analysis by FedExing a stool sample. But doctors aren't so sure. University of Mississippi Medical Center cardiac surgeon Larry Creswell says that, for some, the mania for testing serves as a substitute for real care. "They don't have a doctor," he says of his lab-obsessed athlete friends. "They want to be the doctor."

No surprise, online boards are full of folks seeking feedback from strangers on their test results. One brave soul posting his blood panel online was promptly diagnosed with liver problems, infection, scleroderma and hypertension. With a diagnosis like that, he's probably feeling depressed. The next step: a NeuroScreen profile to calculate dopamine and serotonin levels—just $275 at LabTestingDirect.com.

For more of Anne Kadet's Tough Customer columns, visit SmartMoney.com.

PHOTOGRAPH BY NEIL WEBB/GETTY IMAGES

investing in 20 years

As we hurry off into the history books, we can't help but make a few bold predictions about the future of finance. To see how we do, visit **SmartMoney.com,** circa 2032.

Gold

Uncle Sam already runs a big deficit and, over the past three years, has been throwing trillions of dollars into the economy. Inflation will most likely catch up, and that will bring a second run on gold, which has always been the world's inflation hedge. Look for the shiny nuggets to surpass $2,000 an ounce.

ETFs

They've taken the investing world by storm, attracting more than $1 trillion in assets in 20 years. Expect them to triple that—or more—over the next 20, as more investors choose cheap, passive investing strategies over active mutual funds.

Stocks

Between now and 2032 will we see U.S. stocks rise 11-fold like we did from 1982 to 2000? Probably not. But global share prices will continue to increase as companies sell more stuff to more stuff-buying populations. That's called progress.

Mutual Funds

For five years, the $12 trillion mutual fund market has seen virtually no net gain in assets, just people running out of U.S. stocks and into bond or international-stock portfolios. Look for more and more name-brand funds—and virtually every load-charging fund—to fade away.

Bonds

Yields on U.S. Treasurys are at historic lows. And though it might take a while for them to rise again, rise they will. Since 1929, the average on the 10-year Treasury is 6 percent. Who are we to argue with history?

PHOTOGRAPH BY JOHN KUCZALA (EGGS); ILLUSTRATION BY RYAN ETTER (BULL)

Get on the money list

THESE TOURING GOLF PROFESSIONALS HAVE GONE BALLISTIC

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Robert Karlsson	Davis Love III	Johnson Wagner	Michael Putnam	John Daly	Tim Clark	Skip Kendall
Hunter Mahan	Angel Cabrera	Greg Chalmers	Joe Durant	Mathias Gronberg	Zach Johnson	Justin Rose
David Toms	Carl Pettersson	Nick O'Hern	Shaun Micheel	Alex Rocha	Nick Watney	Scott Brown
MartinLaird	Andres Romero	Matt Bettencourt	Billy Mayfair	Rich Beem	Kyle Reifers	Will Claxton
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Kyle Stanley	Brandt Jobe	John Mallinger	David Duval	Tommy Armour III	Jason Kokrak	Chris Kirk
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Gary Woodland	Trevor Immelman	Ken Duke	Colt Knost	Will Strickler	Brendon De Jonge	Matthew Goggin
Mark Wilson	Chad Campbell	Josh Teater	Alex Prugh	Todd Fischer	Vaughn Taylor	Butch Harmon - *PGA Pro Coach*
Charles Howell III	J.B. Holmes	Gavin Coles	Peter Tomasulo	Michael Hulbert	Fred Funk	
Sean O'Hair	John Rollins	Tom Pernice Jr.	Jarrod Lyle	Omar Uresti	Olin Browne	*and growing!*

JUST ADDED: THESE PROFESSIONAL BASEBALL PLAYERS HAVE GONE BALLISTIC

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TRS Ballistic is Made-in-the-USA and specifically crafted to complement the first-class travel experience. It showcases a sleek, functional design and the most durable materials used in the luggage world today. Inspired by the needs of discerning globetrotters, all pieces are constructed from U.S. woven INVISTA CORDURA® 1050 denier Nylon Ballistic fabric, which offers double the abrasion resistance and four times the tear resistance of other premium materials.

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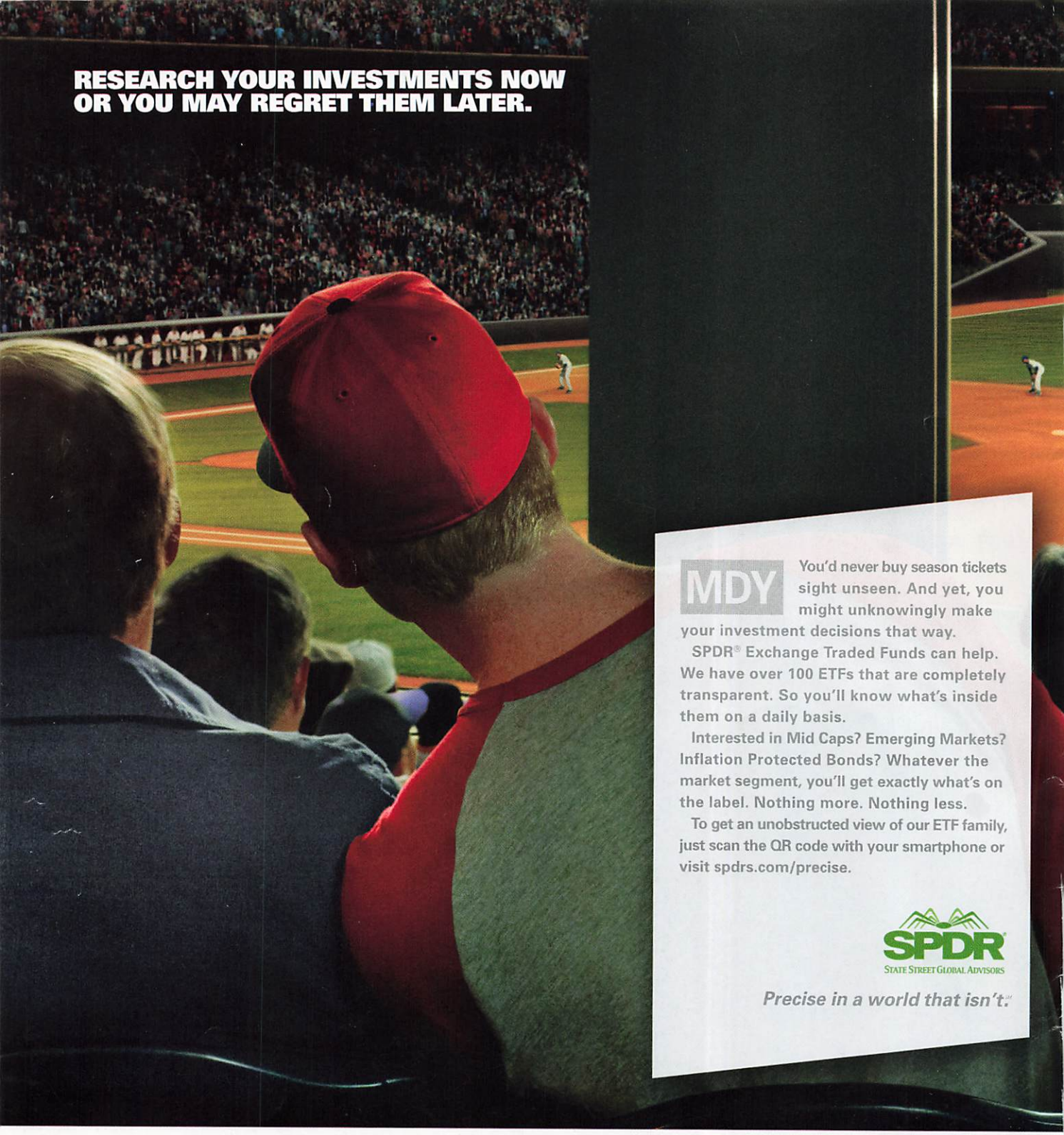
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